TRANSCAT

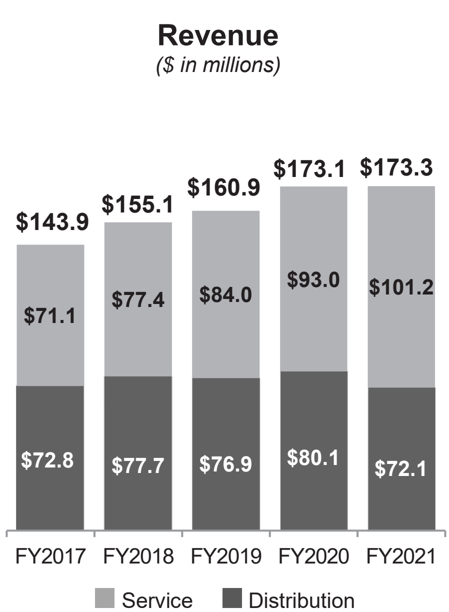
Fiscal 2021 Annual Report

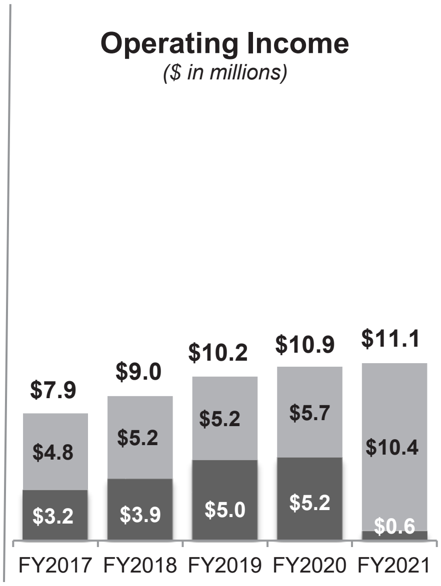
Transcat, Inc. (Nasdaq: TRNS) is a leading provider of accredited calibration and laboratory instrument services and a value-added distributor of professional grade handheld test, measurement and control instrumentation. We are focused on providing services and products to highly regulated industries, particularly the life science industry, which includes pharmaceutical, biotechnology, medical device, and other FDA-regulated businesses. Additional industries served include industrial manufacturing; energy and utilities, including oil and gas and alternative energy; FAA-regulated businesses, including aerospace and defense; and other industries that require accuracy in their processes, confirmation of the capabilities of their equipment, and for which the risk of failure is very costly.

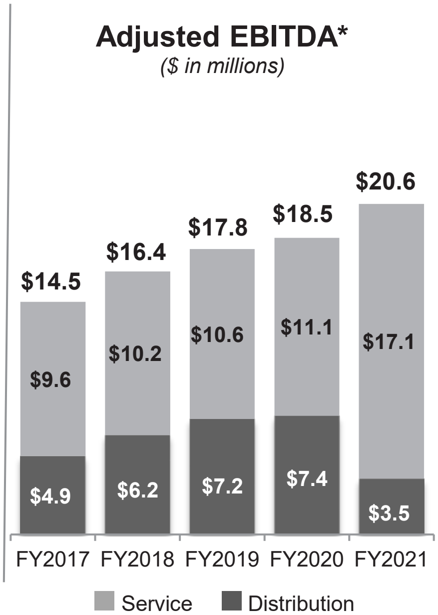
We provide periodic on-site services, mobile calibration services, pickup and delivery, and in-house services at our customers' sites and at our 22 calibration service centers strategically located across the United States, Puerto Rico, and Canada. In addition, we have 20 imbedded customer-site locations that we refer to as "client-based labs." The breadth and depth of measurement parameters addressed by our ISO/IEC 17025:2017 scopes of accreditation are believed to be the best in the industry.

We also operate as a leading value-added distributor that markets, sells and rents new and used national and proprietary brand instruments to customers primarily in North America. We believe our combined Service and Distribution segment offerings, experience, technical expertise, and integrity create a unique and compelling value proposition for our customers.

Our strategy is to leverage the complementary nature of our two operating segments, our comprehensive service capabilities, strong brand, enhanced e-commerce capabilities and leading distribution platform to drive organic sales growth. We will also look to expand our addressable calibration market through acquisitions and capability investments to further realize the inherent leverage of our business model.







** See following pages for more information about this non-GAAP measure and for the reconciliation table.*
All figures are rounded to the nearest tenth of a million; therefore, totals shown in graphs may not equal the sum of the segments.

Transcat routinely posts news and other important information on its website, www.transcat.com, where additional comprehensive information about the Company can be found. Unless indicated, information on Transcat's website is not part of this Annual Report.

Dear Shareholders,

Fiscal 2021 presented us with one of the most challenging operating environments in our company's history. We entered the year with a cautious outlook as the COVID-19 pandemic spread globally and significantly impacted not only our daily lives, but how we ran the company. Despite these historic headwinds, our previous strategic decision to increase our exposure to highly regulated end markets, including life sciences, served us well as we reported record results in nearly all key consolidated financial metrics on strong operational execution.

I am incredibly proud of the performance and dedication of the entire Transcat team for not only the record results, but the actions taken to ensure the health and safety of our employees and customers. We managed through the pandemic with limited impacts to our internal and external stakeholders, something our teams should be very proud of.

The progress we made toward our long-term strategic and financial objectives were evident in our fiscal 2021 results and highlights:

- Achieved record consolidated revenue, operating income, EBITDA and cash flow
- Consolidated revenue of $173.3 million, up slightly from prior year
- Service segment revenue grew 8.9% and gross margin expanded 510 basis points
- 48 consecutive quarters of year-over-year quarterly Service growth – *12 straight years!*
- Record operating income of $11.1 million and adjusted EBITDA of $20.6 million
- Generated record cash flow from operations of $23.6 million, which allowed us to invest in our technology infrastructure, fund our acquisition strategy and pay down debt
- Reduced outstanding debt by nearly $11 million and our leverage ratio declined to 0.94x

Our resilient Service segment achieved two important financial milestones in fiscal 2021

Our calibration services business proved to be very resilient and drove the record results in fiscal 2021. The recurring nature of its revenue stream and its life science orientation provided stability early in the pandemic and then turned to solid growth that accelerated throughout the fiscal year, with the segment reporting 10.0% organic growth and 15.8% overall growth in the fourth quarter. This allowed the Service segment to surpass two important milestones, exceeding $100 million in revenue and 30% gross margin for the full fiscal year. Importantly, we believe our gross margin level to be sustainable as the majority of the improvements have been driven by technician productivity, accretive acquisitions and operating leverage on our fixed costs.

We also have made progress on our acquisition strategy, adding BioTek to our portfolio in December 2020 and more recently, Upstate Metrology in April 2021. BioTek increased our exposure to life sciences and the growing pipettes market and gives us additional on-site technician capabilities, a perfect complement to the largely in-house business model at pipettes.com, which was acquired in February 2020. Upstate Metrology is a Rochester, NY-based calibration service provider that allows us to leverage existing infrastructure as it is being consolidated into our main Rochester lab to drive synergies and margin improvement.

While our Distribution business was negatively impacted by the market environment throughout fiscal 2021, we were encouraged by improving order trends later in the fiscal year. Additionally, we continue to believe this segment is a differentiator for Transcat, generating cash and producing customer sales leads for our Service segment.

We continued to invest through the pandemic to drive our long-term growth and profitability

We made a strategic decision early in the pandemic to continue to invest in what we believe will be long-term strategic differentiators. In addition to making the retention of our technicians a top priority, we made additional investments in our technology infrastructure, including further investments in automation and process improvement, both of which we believe will drive future margin expansion in our Service segment. We also strengthened our senior team, onboarding two seasoned and talented executives in fiscal 2021. Mark Doheny was appointed as our Chief Financial Officer in November 2020 and Jim Jenkins joined in September 2020 as our Vice President of Corporate Development, a new position created to drive our acquisition strategy and growth. Both Jim and Mark have significant experience with mergers & acquisitions and our pipeline is growing and active.

Ultimately, we expect our scale, our experience, our unique value proposition, and our strategy to play in our favor. On behalf of the Transcat Board and employees, thank you for your continued interest and investment in Transcat.

Sincerely,

Lee D. Rudow
President and Chief Executive Officer
July 12, 2021

Dear Shareholders,

Fiscal 2021 was a year that brought unprecedented challenges, testing our resolve as a Company. The COVID-19 pandemic also provided us with opportunities to show perseverance, strength, and empathy. Our 2021 performance illustrates our teams' leadership, core values and resiliency. We were able to deliver a solid performance despite these challenges through consistent execution of our strategy and our ability to leverage our competitive strengths – leadership, adaptability and diversity of thought. These strengths serve as the foundation of a uniquely resilient business that managed through and ultimately flourished during a period of great uncertainty, during significant management and operational changes. I am not sure I could be prouder of our management team and my fellow board members for the performance they delivered this year to you, our shareholders. Our success is ultimately rooted in our people. We have always thought that if we treat our people with dignity and respect, they will enhance our customers' experience. We believe this philosophy also fosters exceptional performance, social responsibility, progressive human capital initiatives and enhanced corporate governance practices. Similarly, good corporate governance and a commitment to high ethical standards remain essential to Transat's success.

In 2021, we took several meaningful steps, including:

Promoting Employee Safety & Wellbeing. The health and safety of our employees has always been a priority. Never was this more evident than in Fiscal 2021. We temporarily closed our Rochester corporate offices and shifted the vast majority of our non-essential employees to work from home, and instituted travel bans and restrictions. We made significant efforts to keep our essential workers (our lab technicians and administrators, drivers, and warehouse workers) as safe as possible. We created a COVID-19 task force whose primary responsibility was ensuring safety in very uncertain times. Recognizing the toll, the pandemic was taking on our employees, we provided a series of workshare programs, three separate hazard bonuses for essential workers, a holiday bonus and two separate and extra paid days off. Management was in constant communication with our employees to ensure their safety and wellbeing. In addition, we hired a safety compliance manager to further execute on our safety measures.

Support of Communities. In the face of the pandemic, we initiated a United Way program (initially in our corporate headquarters in Rochester, New York) and matched dollar for dollar our employees' contributions. We intend to roll this out over time in the other communities in which we have a presence. We also created new socially responsible global policies which reflect our core values. The board intends to remain actively involved in fostering socially responsible worldwide, regional, and local initiatives.

Commitment to Board Refreshment, Diversity and Governance. Refreshment and diversity are important to Transat's success. In 2021, we appointed two new independent directors and two new executive officers. On the board, we added a military veteran to improve connection to our technical workforce which is primarily trained in the military. We also added acquisition and valuation expertise to provide added oversight for our acquisition strategy. Finally, we temporarily increased our board size to ensure our new leaders have been onboarded in a manner that passes on institutional knowledge efficiently and responsibly. I am confident that you will recognize our commitment to best practices in these areas.

Thank you for your continued support of Transcat and your participation in this year's Annual Meeting.

Sincerely,

Gary J. Haseley
Chairman of the Board

Five-Year Performance Highlights

(In thousands, except per share and percentage data)	FY2021	FY2020	FY2019	FY2018	FY2017
Service segment revenue	$ 101,274	$ 93,003	$ 84,041	$ 77,445	$ 71,103
Distribution segment sales	72,061	80,096	76,857	77,696	72,795
Total revenue	173,335	173,099	160,898	155,141	143,898
Gross profit	46,118	42,478	39,343	37,441	34,970
Gross margin	*26.6%*	*24.5%*	*24.5%*	*24.1%*	*24.3%*
Total operating expenses	35,045	31,628	29,114	28,415	27,036
Operating income	11,073	10,850	10,229	9,026	7,934
Operating margin	*6.4%*	*6.3%*	*6.4%*	*5.8%*	*5.5%*
Net income	7,791	8,067	7,145	5,922	4,522
Earnings per share – diluted	$ 1.03	$ 1.08	$ 0.95	$ 0.81	$ 0.64
Weighted average shares – diluted	7,548	7,487	7,515	7,303	7,111

Year-end Financial Position

Total assets	$ 132,116	$ 128,122	$ 105,230	$ 96,822	$ 92,097
Shareholders' equity	75,078	67,087	59,630	51,348	43,401
Book value per share	$ 9.95	$ 8.96	$ 7.93	$ 7.03	$ 6.10

Adjusted EBITDA*

(In thousands)	FY2021	FY2020	FY2019	FY2018	FY2017
Service operating income	$ 10,441	$ 5,672	$ 5,202	$ 5,158	$ 4,769
+ Depreciation & amortization	5,597	4,929	4,754	4,397	4,660
+ Restructuring expense	349	-	-	-	-
+ Other (expense)/income	(162)	(20)	(69)	(61)	(55)
+ Noncash stock compensation	835	470	702	706	217
Adjusted Service EBITDA	$ 17,060	$ 11,051	$ 10,589	$ 10,200	$ 9,591
Distribution operating income	$ 632	$ 5,178	$ 5,027	$ 3,868	$ 3,165
+ Depreciation & amortization	1,983	1,729	1,607	1,594	1,524
+ Restructuring expense	301	-	-	-	-
+ Other (expense)/income	(79)	35	(22)	1	4
+ Noncash stock compensation	678	414	625	705	236
Adjusted Distribution EBITDA	$ 3,515	$ 7,356	$ 7,237	$ 6,168	$ 4,929
Adjusted Service EBITDA	$ 17,060	$ 11,051	$ 10,589	$ 10,200	$ 9,591
Adjusted Distribution EBITDA	$ 3,515	$ 7,356	$ 7,237	$ 6,168	$ 4,929
Total Adjusted EBITDA	$ 20,575	$ 18,407	$ 17,826	$ 16,368	$ 14,520

** In addition to reporting net income and operating income, U.S. generally accepted accounting principle ("GAAP") measures, we present Adjusted EBITDA (earnings before interest, income taxes, depreciation and amortization, non-cash stock compensation expense, non-cash loss on sale of building and restructuring expense), which is a non-GAAP measure. We believe Adjusted EBITDA is an important measure of our operating performance because it allows management, investors and others to evaluate and compare the performance of our core operations from period to period by removing the impact of the capital structure (interest), tangible and intangible asset base (depreciation and amortization), taxes, and stock-based compensation expense, which is not always commensurate with the reporting period in which it is included. As such, we use Adjusted EBITDA as a measure of performance when evaluating our business segments and as a basis for planning and forecasting. Adjusted EBITDA is not a measure of financial performance under GAAP and is not calculated through the application of GAAP. As such, it should not be considered as a substitute or alternative for the GAAP measures of net income and operating income and, therefore, should not be used in isolation of, but in conjunction with, the GAAP measures. Adjusted EBITDA, as presented, may produce results that vary from the GAAP measures and may not be comparable to a similarly defined non-GAAP measure used by other companies.*

TRANSCAT®

Trust in every measure

SEC FORM 10-K

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

FORM 10-K

(Mark one)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: March 27, 2021

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)

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

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

Title of each class	**Trading Symbol**	**Name of each exchange on which registered**
Common Stock, $0.50 par value	TRNS	Nasdaq Global Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on September 25, 2020 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $199.6 million. The market value calculation was determined using the closing sale price of the registrant's common stock on September 25, 2020, as reported on the Nasdaq Global Market.

The number of shares of common stock of the registrant outstanding as of June 3, 2021 was 7,468,991.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to the Annual Meeting of Shareholders to be held on September 8, 2021 have been incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this report.

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FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations, estimates, beliefs, assumptions and predictions of future events and are identified by words such as "anticipates," "believes," "estimates," "expects," "projects," "seek," "strategy," "target," "intends," "could," "may," "will," "would," and other similar words. Forward-looking statements are not statements of historical fact and thus are subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or those expressed in such forward-looking statements. You should evaluate forward-looking statements in light of important risk factors and uncertainties that may affect our operating and financial results and our ability to achieve our financial objectives. These factors include, but are not limited to, the impact of and the Company's response to the COVID-19 pandemic, the highly competitive nature of the industries in which we compete and in the nature of our two business segments, cybersecurity risks, the risk of significant disruptions in our information technology systems, our inability to recruit, train and retain quality employees, skilled technicians and senior management, fluctuations in our operating results, competition in the rental market, the volatility of our stock price, our ability to adapt our technology, reliance on our enterprise resource planning system, technology updates, risks related to our acquisition strategy and the integration of the businesses we acquire, volatility in our customers' industries, changes in vendor rebate programs, our vendors' abilities to provide desired inventory, the risks related to current and future indebtedness, the relatively low trading volume of our common stock, foreign currency rate fluctuations and the impact of general economic conditions on our business. These risk factors and uncertainties are more fully described by us under the heading "Risk Factors" in Item IA. of Part I of this report. You should not place undue reliance on our forward-looking statements. Except as required by law, we undertake no obligation to update, correct or publicly announce any revisions to any of the forward-looking statements contained in this report, whether as a result of new information, future events or otherwise.

PART I

ITEM 1. BUSINESS

BUSINESS OVERVIEW

Transcat, Inc. ("Transcat", the "Company," "we" or "us") is a leading provider of accredited calibration and laboratory instrument services and a value-added distributor of professional grade test, measurement and control instrumentation. We are focused on providing services and products to highly regulated industries, particularly the life science industry, which includes pharmaceutical, biotechnology, medical device and other FDA-regulated businesses. Additional industries served include FAA-regulated businesses, including aerospace and defense industrial manufacturing; energy and utilities, including oil and gas and alternative energy; and other industries that require accuracy in their processes, confirmation of the capabilities of their equipment, and for which the risk of failure is very costly.

We conduct our business through two operating segments: service ("Service") and distribution ("Distribution"). See Note 7 to our Consolidated Financial Statements in this report for financial information for these segments. We concentrate on attracting new customers in each segment, retaining existing customers and cross-selling to customers to increase our total revenue. We serve approximately 26,000 customers through our Service and Distribution segments, with approximately 25% to 30% of those customers transacting with us through both of our business segments.

Through our Service segment, we offer calibration, repair, inspection, analytical qualifications, preventative maintenance, consulting and other related services, a majority of which are processed through our proprietary asset management system, CalTrak® ("CalTrak®") and our online customer portal, C3® ("C3®"). Our Service model is flexible, and we cater to our customers' needs by offering a variety of services and solutions including permanent and periodic onsite services, mobile calibration services, pickup and delivery and in-house services. As of the end of our fiscal year ended March 27, 2021 ("fiscal year 2021"), we operated twenty-two calibration service centers ("Calibration Service Centers") strategically located across the United States, Puerto Rico, and Canada. We also serve our customers onsite at their facilities for daily, weekly or longer-term periods. In addition, we have several imbedded customer-site locations that we refer to as "client-based labs," where we provide calibration services, and in some cases other related services, exclusively for the customer and where we reside and work every day. We also have a fleet of mobile calibration laboratories that can provide service at customer sites which may not have the space or utility capabilities we require to service their equipment.

All of our Calibration Service Centers have obtained ISO/IEC 17025:2017 scopes of accreditation. Our accreditations are the cornerstone of our quality program, which we believe is among the best in the industry. Our dedication to quality is highly valued by businesses that operate in the industries we serve, particularly those in life science and other regulated industries, and our accreditations provide our customers with confidence that they will receive a consistent and uniform service, regardless of which of our service centers completes the service.

Through our Distribution segment, we sell and rent national and proprietary brand instruments to customers globally. Through our website, in-house sales team and printed and digital marketing materials, we offer access to more than 150,000 test, measurement and control instruments, including products from approximately 500 leading brands. Most instruments we sell and rent require calibration service to ensure that they maintain the most precise measurements. By having the capability to calibrate these instruments at the time of sale and at regular post-sale intervals, we can give customers a value-added service that most of our competitors are unable to provide. Calibrating before shipping means the customer can place their instruments into service immediately upon receipt, reducing downtime. Other value-added options we offer through our Distribution segment include equipment kitting (which is especially valued in the power generation sector), equipment rentals and used equipment sales.

Our commitment to quality goes beyond the services and products we deliver. Our sales, customer service and support teams provide expert advice, application assistance and technical support to our customers. Since calibration is an intangible service, our customers rely on us to uphold high standards and provide integrity in our people and processes.

Our customers include leading manufacturers in the life science/pharmaceutical, energy, defense, aerospace and industrial process control sectors. We believe our customers do business with us because of our integrity and commitment to quality service, our broad range of product and service offerings, our proprietary asset management system, CalTrak®, and our online customer portal, C3®. In our fiscal year ended March 28, 2020 ("fiscal year 2020") through fiscal year 2021, no customer or controlled group of customers accounted for 5% or more of our total revenue. The loss of any single customer would not have a material adverse effect on our business, cash flows, balance sheet, or results of operations.

Transcat was incorporated in Ohio in 1964. We are headquartered in Rochester, New York. Our executive offices are located at 35 Vantage Point Drive, Rochester, New York 14624. Our telephone number is 585-352-7777. Our website is www.transcat.com. Information available on our website is not a part of, and is not incorporated into, this Annual Report on Form 10-K. We trade on the Nasdaq Global Market under the ticker symbol "TRNS".

OUR STRATEGY

Our two operating segments are highly complementary in that their offerings are of value to customers within the same industries. Our strategy is to leverage the complementary nature of our operating segments in ways that add value for all customers who select Transcat as their source for test and measurement equipment and/or calibration and laboratory instrument services. We strive to differentiate ourselves within the markets we serve and build barriers to competitive entry by offering a broad range of products and services and by integrating our product and service offerings in a value-added manner to benefit our customers' operations.

During fiscal year 2021, we continued to commit capital, people and leadership investments to advance our "Operational Excellence" initiative. This initiative is resulting in increased productivity and operational efficiency and further differentiation from our competitors as we leverage technology and process improvements to improve our effectiveness and our customers' experiences. Our Operational Excellence initiative is a multi-year, ever-evolving program designed to create an infrastructure that supports our strategic goals over a longer timeframe.

Within the Service segment, our strategy is to drive double-digit revenue growth through both organic expansion and acquisitions. Our strategy is to achieve mid-to-high single digit organic revenue growth in this segment. We have adopted an integrated sales model to drive sales and capitalize on the cross-selling opportunities between our two segments, especially leveraging our Distribution relationships to develop new Service relationships. We leverage these relationships with our unique value proposition which resonates strongly with customers who rely on accredited calibration services and/or laboratory instrument services to maintain the integrity of their processes and/or meet the demands of regulated business environments. Our customer base values our superior quality programs and requires precise measurement capability in their processes to minimize risk, waste and defects. We execute this strategy by leveraging our quality programs, metrology expertise, multiple locations, qualified technicians, breadth of capabilities, and onsite and depot service options. Together, this allows us to meet the most rigorous quality demands of our most highly regulated customers while simultaneously being nimble enough to meet their business needs.

We expect to continue to grow our Service business organically by taking market share from other third-party providers and original equipment manufacturers ("OEMs"), as well as by targeting the outsourcing of in-house calibration labs as multi-year client-based lab contracts. We believe an important element in taking market share is our ability to expand into new technical capabilities that are in demand by our current and target customer base.

The other component to our Service growth strategy is acquisitions. There are three drivers of our acquisition strategy: geographic expansion, increased capabilities and infrastructure leverage. The majority of our acquisition opportunities have been in the $500 thousand to $10 million annual revenue range, and we are disciplined in our approach to selecting target companies. One focus of our Operational Excellence initiative is to strengthen our acquisition integration process, allowing us to capitalize on acquired sales and cost synergies at a faster pace.

Our Distribution segment strategy is to be the premier distributor and rental source of leading test and measurement equipment while also providing cross-selling opportunities for our Service segment. Through our vendor relationships we have access to more than 150,000 products, which we market to our existing and prospective customers both with and without value-added service options that are unique to Transcat. In addition to offering pre-shipment value-added services, we offer our customers the options of renting selected test and measurement equipment or buying used equipment, furthering our ability to answer all of our customers' test and measurement equipment needs. We continuously evaluate our offerings and add new in-demand vendors and products. Our equipment rental business continues to grow, and with it used equipment sales. Having new, used and rental equipment further differentiates us from our Service segment competitors.

We see these various methods of meeting our Distribution customers' needs as a way to differentiate ourselves and to diversify this segment's customer base from its historically niche market. This differentiation and diversification strategy has been deliberately instituted in recent years as a means to mitigate the effect of price-driven competition and to lessen the impact that any particular industry or market will have on the overall performance of this segment.

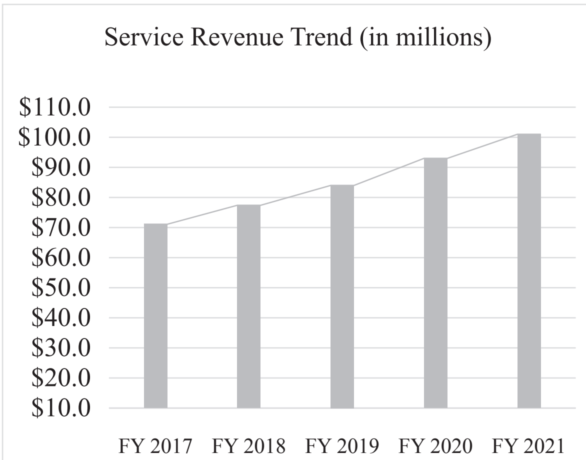
As part of our growth strategy, we completed one acquisition during our fiscal year 2021 and three business acquisitions during our fiscal year 2020:

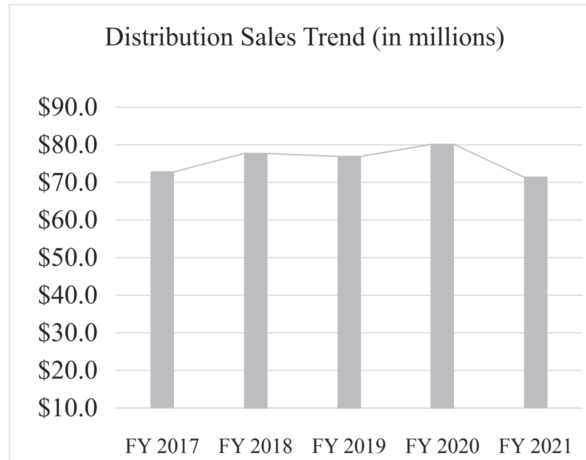
- Effective December 16, 2020, Transcat acquired substantially all of the assets of BioTek Services, Inc. ("BioTek"), a Virginia based provider of pipette calibration services.
- Effective February 21, 2020, we acquired substantially all of the assets of TTE Laboratories, Inc. ("TTE", now known as pipettes.com), a Boston, MA-based provider of pipette equipment and services.
- Effective July 19, 2019, we acquired Infinite Integral Solutions Inc. ("IIS"). IIS, a Mississauga, Ontario, Canada company, the owner and developer of the CalTree™ suite of software solutions for the automation of calibration procedures and datasheet generation.
- Effective April 1, 2019, we acquired substantially all of the assets of Gauge Repair Service ("GRS"), a Los Angeles, California-based provider of calibration services.

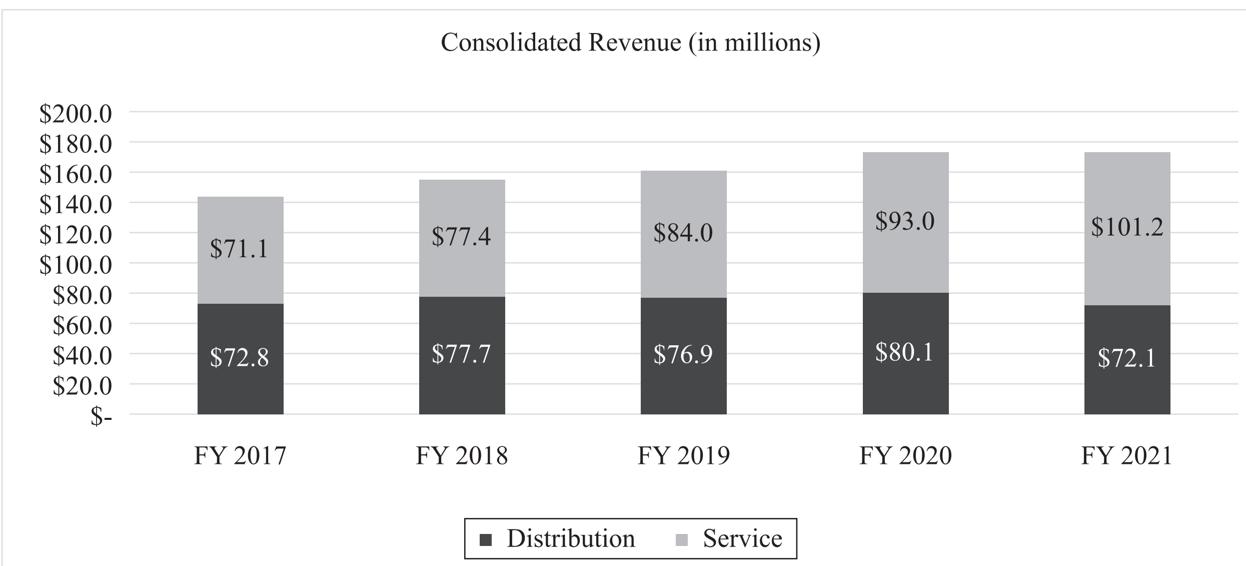
Our acquisition strategy primarily targets service businesses that expand our geographic reach, increase the depth and/or breadth of our service capabilities and expertise and leverage our infrastructure. The table below illustrates the strategic drivers for the acquisitions described above:

	Geographic Expansion	Increased Capabilities	Leveraged Infrastructure
Bio Tek		✓	✓
Pipettes.com		✓	✓
IIS		✓	✓
GRS		✓	✓

We believe our combined Service and Distribution segment offerings, experience, technical expertise and integrity create a unique and compelling value proposition for our customers, and we intend to continue to grow our business through organic revenue growth and business acquisitions. We consider the attributes of our Service segment, which include higher gross margins and recurring revenue streams from customers in regulated industries to be more compelling and scalable than our legacy Distribution segment. For this reason, we expect our Service segment to be the primary source of revenue and earnings growth in future fiscal years. The charts below illustrate Service, Distribution and consolidated revenue over the past five years:







SEGMENTS

Service Segment

Calibration

Calibration is the act of comparing a unit or instrument of unknown value to a standard of known value and reporting the result in some specifically defined form. After the calibration has been completed, a decision is made, based on rigorously defined parameters, regarding what, if anything, should be done to the unit to conform to the required standards or specifications. The decision may be to adjust, optimize or repair a unit; limit the use, range or rating of a unit; scrap the unit; or leave the unit as is. The purpose of calibration is to significantly reduce the risk of product or process failures caused by inaccurate measurements. In addition to its being an element of quality control and risk management, calibration improves an operation's productivity and efficiency to optimal levels by assuring accurate, reliable instruments and processes.

The need for calibration is often driven by regulation, which identifies a requirement for quality calibration and laboratory instrument services as a critical component of a company's business operation. We specifically target industries and companies that are regulated by the FDA, FAA or other regulatory bodies. As a result of the various levels of regulation within our target industries, our customers' calibration and laboratory instrument service sourcing decisions are generally made based on the provider's quality systems, accreditation, reliability, trust, customer service and documentation of services. To maintain our competitive position in this segment, we maintain internationally recognized third-party accredited quality systems, further detailed in the section entitled "Service Quality" below, and provide our customers with access to proprietary asset management software solutions, which offer tools to manage their internal calibration programs and provide them with visibility to their service records.

Through our Service segment, we perform recurring periodic calibrations (typically ranging from three-month to twenty-four month intervals) on new and customer-owned instruments. We perform approximately 700,000 calibrations annually and can address a significant majority of the items requested to be calibrated with our in-house capabilities. For customers' calibration needs in less common and highly specialized disciplines, we subcontract some calibrations to third-party vendors that have unique or proprietary capabilities. While typically representing approximately 13% to 15% of our Service segment revenue, we believe the management of these items is highly valued by our customers and providing this service has enabled us to continue our pursuit of having the broadest calibration offerings in these targeted markets. We regularly review outsourced services to identify opportunities for in-house capability expansion.

Compliance Services

Our compliance services include analytical qualification, validation, remediation and preventative maintenance services. Our analytical qualification and validation services provide a comprehensive and highly specialized service offering focused on life science-related industries. Analytical qualifications and validation services include validations to specifically documented protocols that are commonly used in highly-regulated life science industries including installation qualification ("IQ"), operational qualification ("OQ"), and performance qualification ("PQ"). Most of the demand for our qualification, validation and preventative maintenance services comes from companies and institutions engaged in pharmaceutical manufacturing and research and development.

Our goal is to deliver specialized technical services with a quality assurance approach, which maximizes document accuracy and on-time job delivery. These industries demand knowledgeable contract services, and Transcat meets these demands with current good manufacturing practice ("cGMP") and good laboratory practice ("GLP") compliant services. Companies within these innovative and cutting-edge life science industries need a reliable alternative to the OEMs and the "generalist" service providers who cannot meet their industry-specific needs. We believe our value proposition to the life science industries is unique as a result of offering a comprehensive suite of both traditional calibration and laboratory instrument and other analytical services.

Analytical qualifications and preventative maintenance services are typically based on service agreements for periodic service and tend to generate recurring revenue. Some validation services are based on certain customer processes. While some validation services may not be repeated, we generally develop relationships with these customers that lead to demand for additional unique validation services. Remediation services are based on specific regulatory actions and are generally project-based and required by a customer for a finite period of time. Remediation revenue is not recurring by its nature.

Other Services

We provide other services to our customers such as inspection, repair and consulting services, which appeal to customers across all sectors in our customer base. These are generally value-added services and allow us to provide "one-stop shopping" for our customers.

Service Value Proposition

Our calibration services strategy encompasses multiple ways to manage a customer's calibration and laboratory instrument service needs:

1) We offer an "Integrated Calibration Service Solution" that provides a complete wrap-around service, which can be delivered in the following ways:
   - in-house services: services are performed at one of our twenty-two Calibration Service Centers (often accompanied by pick-up and delivery services);
   - periodic onsite services: Transcat technicians travel to a customer's location, including aboard vessels docked at shipyards, and provide bench-top or in-line calibration or laboratory services on predetermined service cycles;
   - client-based-laboratory services: Transcat establishes and manages a calibration service program within a customer's facility; and
   - mobile calibration services: services are completed on a customer's property within one of our mobile calibration units.
2) For companies that maintain an internal calibration operation, we can provide:
   - calibration of their primary calibration assets, also called "standards"; and
   - overflow capability, either onsite or at one of our Calibration Service Centers, during periods of high demand.

Inclusive with all the above services, we provide total program management including logistics, remediation and consultation services when needed.

We strive to provide the broadest accredited calibration offering to our targeted markets, which includes certification of our technicians pursuant to the American Society for Quality standards, complete calibration management encompassing the entire metrology function, and access to our complementary service and product offerings. We believe our calibration services are of the highest technical and quality levels, with broad ranges of accreditation.

Our Compliance Services strategy is to identify and establish long-term relationships with life science research and development and manufacturing customers who require analytical qualifications, validation, remediation and/or preventative maintenance services. In most cases, these customers are life science companies, including pharmaceutical and biotechnology companies engaged in research and development and manufacturing, which are subject to extensive government regulation. The services we provide to these regulated customers are typically a critical component of the customer's overall compliance program. Because many laboratory instrument service customers operate in regulated industries, these same customers typically also require accredited calibration services. This requirement allows a natural synergy between our laboratory instrument and calibration services. Our strategy includes cross-selling our services within our customer accounts to maximize our revenue opportunities with each customer.

Proprietary Asset Management Software

CalTrak® is our proprietary documentation and asset management software which is used to integrate and manage both the workflow of our Calibration Service Centers and our customers' assets. With CalTrak®, we are able to provide our customers with timely and consistent calibration service while optimizing our own efficiencies. CalTrak® has been validated to U.S. federal regulations 21 CFR Part 820.75 and 21 CFR Part 11, as applicable. This validation is important to pharmaceutical and other FDA-regulated industries where federal regulations can be particularly stringent.

Additionally, C3® provides our customers with web-based asset management capability and a safe and secure off-site archive of calibration and other service records that can be accessed 24 hours a day through our secure password-protected website. C3® stands for Compliance, Control and Cost, and we see these as the major areas of focus for our clients within the regulatory environment as it relates to instrument calibration. We specifically designed C3® to assist our customers in increasing efficiency, driving compliance to quality system and enhancing control of instrumentation, all while bringing their overall metrology costs down. Understanding the regulated environments that our clients operate within, we customized the platform to allow for single system of record utilization via capabilities that allow clients to track and manage instruments maintained internally in addition to instruments supported by Transcat. C3® is validated to 21 CFR Part 820.75 and 21 CFR Part 11 to meet stringent FDA requirements.

Through CalTrak® and C3®, each customer calibration is tracked and automatically cross-referenced to the assets used to perform the calibration, providing traceability.

Service Marketing and Sales

Under our integrated sales model, we have both inside and outside sales teams that seek to acquire new customers in our targeted markets by leveraging our unique value proposition, including our broad geographic footprint and comprehensive suite of services. We target regulated, enterprise customers with multiple manufacturing operations throughout North America. We leverage our ability to manage the complete life cycle of instrumentation from purchase of calibrated equipment to long-term service and maintenance requirements. Connecting all the dots by using new and used product sales, rentals, and repair and calibration services is the goal of our marketing and sales initiatives. We also have a team of customer success managers focused on delivering ever-increasing value for our existing customers. We utilize print media, trade shows and web-based initiatives to market our services to customers and prospective customers with a strategic focus in the highly regulated industries including life science and other FDA-regulated industries, aerospace and defense, energy and utilities, and chemical manufacturing. We also target industrial manufacturing and other industries that appreciate the value of quality calibrations.

Service Competition

The calibration services industry is highly fragmented and is composed of companies ranging from internationally recognized and accredited OEMs, to non-accredited sole proprietors as well as companies that perform their own calibrations in-house, resulting in a tremendous range of service levels and capabilities. A large percentage of calibration companies are small businesses that generally do not have a range of capabilities as broad as ours. There are also several companies with whom we compete that have national or regional operations.

We differentiate ourselves from our competitors by demonstrating our commitment to quality, having a wide range of capabilities that are tailored to the markets we serve, having a geographical footprint that spans North America and providing a comprehensive suite of services that spans many manufacturers and is not limited to certain product lines or brands. Our unique ability to bundle our products with our compliance and calibration services also provides a high level of differentiation from our competitors. As one of the only North American compliance and calibration service providers who also distributes product, our customers can seamlessly replace instruments that cannot be calibrated or are otherwise deemed to be at end of life. Our close knowledge of the products we distribute also allows our service staff to consult and advise customers on what products are best suited for their in-house calibration needs. We also believe that our proprietary software is a key differentiator from our competitors. CalTrak® and C3® are utilized by our customers in an integrated manner, providing a competitive barrier as customers realize synergies and efficiencies as a result of this integration.

In fiscal year 2020, we invested in a software solution for the automation of calibration procedures and datasheet generation. We are in the testing phases with the rollout for the first set of calibration disciplines. In fiscal year 2022, we expect to make significant investments in capital equipment, technology, and human resources to increase automation in performing calibration services. We believe automation will deliver the next step change in productivity, improve customer experience in turnaround time and quality, and increase the flexibility of our workforce. In addition, we have expanded our range of capabilities by making significant capital and staffing investments in reference-level radio frequency/microwave (“RF/Microwave”) calibration capabilities. This allowed us to increase business with our prestigious clients in the enterprise computer manufacturing and aerospace and defense sectors. In fiscal year 2021, we made additional capital investments to expand RF/Microwave capability to the East Coast region of the United States. Also, we grew our mobile calibration laboratory fleet and added the ability to carry inventory and sell products while onsite. This was done to strategically target onsite calibration and instrument sales to the wind energy sector. We believe this mobile approach combined with our high-quality services significantly improves our differentiation in this space.

Competition for laboratory instrument services is composed of both small local and regional service providers and large multi-national OEMs. We believe we are generally financially stronger, service a larger customer base and are typically able to offer a larger suite of services than many of the small local and regional competitors. The large OEMs may offer specialized services and brand-specific expertise which we do not offer, but they are generally focused on providing specialized services only for their proprietary brands and product lines, rather than servicing an array of brands and product lines as we do. We believe our competitive advantages in the laboratory instrument services market are our financial and technical resources, turnaround time, and flexibility to react quickly to customers' needs. The breadth of our suite of laboratory instrument service, combined with our calibration service offerings, also differentiates us from our competitors by allowing us to be our customers' one-source accredited services provider for their entire calibration and compliance programs.

Service Quality

The accreditation process is the only system currently in existence that validates measurement competence. To ensure that the quality and consistency of our calibrations are consistent with the global metrology network, designed to standardize measurements worldwide, we have sought and achieved international levels of quality and accreditation to provide uniformity across all locations with advanced levels of training for our technical staff. Our Calibration Service Centers are accredited to ISO/IEC 17025:2017 by ANSI-ASQ National Accreditation Board ("ANAB") and other accrediting bodies. These accrediting bodies are International Laboratory Accreditation Cooperation Mutual Recognition Arrangement ("ILAC MRA") signatories, are proficient in the technical aspects of the chemistry and physics that underlie metrology, and provide an objective, third-party, internationally accepted evaluation of the quality, consistency, and competency of our calibration processes. Accreditation also requires that all measurement standards used for accredited measurements have a fully documented path, known as Metrological Traceability, through the National Institute of Standards and Technology or the National Research Council (the National Measurement Institutes for the United States and Canada, respectively), or to other national or international standards bodies, or to measurable conditions created in our Calibration Service Centers, or accepted fundamental and/or natural physical constants, ratio type of calibration, or by comparison to consensus standards, all inclusive of measurement uncertainties.

The importance of this international oversight to our customers is the assurance that our service documentation will be accepted worldwide, removing one of the barriers to trade that they may experience if using a calibration laboratory provider whose accrediting body is not an ILAC MRA signatory. To provide the widest range of services to our customers in our target markets, our ISO/IEC 17025:2017 accreditations extend across many technical disciplines, including working-level and reference-level capabilities. We believe our scope of accreditation to ISO/IEC 17025:2017 to be the broadest for the industries we serve.

To reinforce our belief in the importance of calibration quality, we are leveraging a branding campaign for our Service segment that is centered around three simple words – "Calibrated by Transcat®". We believe we have established a strong, differentiated brand that has a deep and meaningful association with quality, compliance and control. We want the phrase "Calibrated by Transcat®" to be synonymous with risk reduction and quality compliance.

Acquired calibration labs might use other quality registration systems. We continually evaluate when to integrate acquired quality systems with the focus on minimizing business disruptions and disruptions to our customers while maintaining our commitment to quality.

Our scopes of accreditation can be found at http://www.transcat.com/calibration-services/accreditation/calibration-lab-certificates.

Distribution Segment

Distribution Summary

We distribute professional grade test, measurement and control instrumentation throughout North America and internationally. Our customers use test and measurement instruments to ensure that their processes, and ultimately their end products, are within specification. Utilization of such diagnostic instrumentation also allows for continuous improvement processes to be in place, increasing the accuracies of their measurements. The industrial test and measurement instrumentation market, in those geographic areas where we predominately operate, has historically been serviced by broad-based national equipment distributors and niche or specialty-focused organizations such as Transcat. We offer value-added services such as calibration/certification of equipment purchases, equipment rentals, used equipment for sale, and equipment kitting. In recent years, online-based distributors have become more prevalent. To compete with these online-based distributors more effectively, we have continued to make improvements to our digital platform, including enhanced e-commerce capabilities.

We believe that a customer chooses a distributor based on a number of different criteria, including product availability, price, ease of doing business, timely delivery and accuracy of orders, consistent product quality, technical competence of the representative serving them and availability of value-added services. The decision to buy is generally made by plant engineers, quality managers, or their purchasing personnel, and products are typically obtained from one or more distributors as replacements, upgrades, or for expansion of manufacturing and research and development facilities. As a result, sales to Distribution customers are somewhat unpredictable and potentially non-recurring. Our online presence, including our website and e-newsletters; master catalog; supplemental mailings and other sales and marketing activities are designed to create interest and maintain a constant presence in front of our customers to ensure we receive the order when they are ready to purchase.

We provide our customers with value-added services, including technical support, to ensure our customers receive the right product for their application, and more comprehensive instrument suitability studies to customers in regulated industries who are concerned about the technical uncertainties that their testing or in-process instruments may bring to a process. We consider our biggest value-added service for our Distribution customers is the option to have calibration service performed on their new product purchases prior to shipment, allowing them to place newly acquired equipment directly into service upon receipt, saving downtime. We also offer online procurement, credit card payment options, same day shipment of in-stock items, kitted products, the option to rent, training programs and a variety of custom product offerings. Items are regularly added to and deleted from our product offerings on the basis of customer demand, recommendations of suppliers, sales volumes and other factors. Because of the breadth of our product and service offerings, we are often a "one-stop shop" for our customers who gain operational efficiency by dealing with just one distributor for most or all of their test and measurement instrumentation needs.

Our focus on higher margin channels such as used equipment and rentals will be a continual focus to bolster profitability in the Distribution segment. This effort is intended to offset competitive pressures in our legacy distribution business.

Distribution Marketing and Sales

We market, create demand and sell to our customers through multiple direct sales channels including our website, digital and print advertising, proactive outbound sales and an inbound call center. Our outbound and inbound sales teams are staffed with technically trained personnel who are available to help guide product selection. Our website serves as a sales channel for our products and services, and provides search capability, detailed product information, in-stock availability, selection guides, demo videos and downloadable product specification sheets. We have made investments in our website to implement the latest marketing technologies which allow us to provide an intuitive customer experience, with simple product comparison and quoting, ease at checkout and automated post-order follow-up. We also operate and maintain several industry-specific service websites, obtained through recent acquisitions. For example, the URL www.pipettes.com was obtained in connection with the acquisition of TTE (now known as pipettes.com). Pipettes.com focuses on selling pipettes, pipette supplies and related services to customers. Within our fiscal year 2021, we were able to increase our distribution sales at pipettes.com through enhancements of the website and leveraging our historical base of customers.

We use a multichannel approach to reach our customers and prospective customers including our master catalog, periodic supplemental catalogs, website, e-newsletters, and other direct sales and marketing programs. Our digital marketing strategy includes ongoing investment in search engine optimization, application-specific digital content, pay-per-click search engine advertising, and product listings on online marketplaces such as Amazon and Google Shopping. We continue to invest in back-end technologies designed to provide a seamless customer experience across all our marketing channels. During fiscal year 2021, we proactively communicated with our customers and prospective customers through direct mail catalogs, email newsletters, vertical email drip campaigns, retargeting ads, educational webinars, and outbound sales calls. Some of the key factors that determine the marketing materials a customer may receive include relevancy of new product introductions, current promotions, purchase history, the customer's market segment, and the contact's job function.

As a result of strong relationships with our product vendors and our historical marketing program results, we have the opportunity to carry out co-branded marketing initiatives, aimed at our existing customers and our prospective customer base, for which we receive cooperative advertising support. These co-branded marketing initiatives typically feature specific vendors, new products or targeted product categories and take the form of direct mailers, web-based initiatives or outbound sales efforts.

Distribution Competition

The distribution market for industrial test and measurement instrumentation is fragmented and highly competitive. Our competitors range from large national distributors and manufacturers that sell directly to customers to small local distributors and online distributors. Key competitive factors typically include customer service and support, quality, lead time, inventory availability, brand recognition and price. To address our customers' needs for technical support and product application assistance, we employ a staff of highly trained technical sales specialists. In order to maintain this competitive advantage, technical training is an integral part of developing our sales staff. To differentiate ourselves from competitors, we offer pre-shipment calibration or performance data reports which allow customers to receive our products and immediately place them into service, saving them downtime and money.

Online distributors, including Amazon which sells lower price-point products, have become prominent competitors for sales of handheld test and measurement equipment, competing primarily on price. While online competitors lack the value-added services we offer in our Distribution segment, they have been successful in capturing some market share in the worldwide market for test and measurement instruments. To stay ahead of growing competition from these online distributors and in keeping with the general trend of increased use of e-commerce, we continue to invest in our digital platform including a well-indexed website with improved design and functionality. In addition, we have diversified our offerings by expanding the brands and product lines that we offer and adding higher gross margin equipment rentals and used equipment sales, which we believe makes Transcat unique among our competitors.

Distribution Suppliers and Purchasing

We believe that effective purchasing is a key element to maintaining and enhancing our position as a provider of high-quality test and measurement instruments. We frequently evaluate our purchase requirements and suppliers' offerings to obtain products at the best possible cost. We obtain our products from approximately 500 suppliers of brand name and private-labeled equipment. In fiscal year 2021, our top 10 vendors accounted for approximately 63% of our aggregate Distribution sales. In fiscal year 2021, the COVID-19 pandemic impacted the supply of products from our vendors resulting in increased lead times and an increase in our backlog.

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

Distribution Vendor Rebates

We have agreements with certain product vendors that provide for rebates based on meeting a specified cumulative level of purchases and/or incremental distribution sales. These rebates are recorded as a reduction of cost of distribution sales. Purchase rebates are calculated and recorded quarterly based upon our volume of purchases with specific vendors during the quarter. Point of sale rebate programs that are based on year-over-year sales performance on a calendar year basis are recorded as earned, on a quarterly basis, based upon the estimated level of annual achievement. Point of sale rebate programs that are based on year-over-year sales performance on a quarterly basis are recorded as earned in the respective quarter. In fiscal 2021, vendors reduced these rebate programs to lower their own costs in response to the COVID-19 pandemic. The Company recorded vendor rebates of $0.7 million and $1.6 million in fiscal years 2021 and 2020, respectively, as a reduction of cost of distribution sales.

Distribution Operations

Our Distribution operations primarily take place at our 48,500 square-foot facility in Rochester, New York which includes 17,000 square feet of warehouse space. The Rochester location also serves as our corporate headquarters, houses our customer service, sales and administrative functions, and is a Calibration Service Center. We also have two smaller warehouse facilities. Our Wisconsin warehouse fulfills orders for certain large industrial scales and our Houston, Texas warehouse fulfills orders for used equipment and rental equipment. In fiscal year 2021, we shipped approximately 26,000 product orders.

Distribution Backlog

Distribution orders include orders for instruments that we routinely stock in our inventory, customized products, and other products ordered less frequently, which we do not stock. Pending product shipments are primarily backorders, but also include products that are requested to be calibrated in one of our Calibration Service Centers prior to shipment, orders required by the customer to be shipped complete or at a future date, and other orders awaiting final credit or management review prior to shipment. Our total backlog was $6.3 million and $4.3 million as of March 27, 2021 and March 28, 2020, respectively.

CUSTOMER SERVICE AND SUPPORT

Key elements of our customer service approach are our business development sales team, outbound sales team, account management team, inbound sales and customer service organization. To ensure the quality of service provided, we monitor our customer service through customer surveys, call monitoring and daily statistical reports.

Customers may place orders via:

- Mail to Transcat, Inc., 35 Vantage Point Drive, Rochester, NY 14624;
- Telephone at 1-800-828-1470;
- Email at sales@transcat.com;
- Online at www.transcat.com; or
- Fax at 1-800-395-0543

INFORMATION REGARDING EXPORT SALES

In fiscal years 2021 and 2020, approximately 10% of our total revenue resulted from sales to customers outside the United States. Of those export sales in fiscal year 2021, approximately 9% were denominated in U.S. dollars and the remaining 91% were in Canadian dollars. Our revenue is subject to the customary risks of operating in an international environment, including the potential imposition of trade or foreign exchange restrictions, tariff and other tax increases, fluctuations in exchange rates and unstable political situations, any one or more of which could have a material adverse effect on our business, cash flows, balance sheet or results of operations. See “Foreign Currency” in Item 7A. of Part II and Note 7 to our Consolidated Financial Statements in this report for further details.

INFORMATION SYSTEMS

We utilize a turnkey enterprise software solution from Infor, Inc. (“Infor”) called Application Plus to manage our business and operations segments. This software includes a suite of fully integrated modules to manage our business functions, including customer service, warehouse management, inventory management, financial management, customer relations management and business intelligence. This solution is a fully mature business package and has been subject to more than 20 years of refinement. We utilize customer relationship management (“CRM”) software offered by SalesForce.com, Inc., which is strategically partnered with Infor, allowing us to fully integrate the CRM software with our Infor enterprise software.

We also utilize CalTrak®, our proprietary document and asset management system, to manage documentation, workflow and customers’ assets within and amongst most of our Calibration Service Centers. In addition to functioning as an internal documentation, workflow, and asset management system, CalTrak®, through C3®, provides customers with web-based calibration cycle management service and access to documentation relating to services completed by Transcat. Certain recent acquisitions utilize either third-party or their own proprietary calibration management systems. We continually evaluate when to integrate these acquired systems with a focus on obtaining operational synergies while imposing minimal disruption to customers.

INTELLECTUAL PROPERTY

We have federally registered trademarks for Transcat®, CalTrak®, C3® and Procision™, which we consider to be of material importance to our business. The registrations for these trademarks are in good standing with the U.S. Patent & Trademark Office. Our CalTrak® trademark is also registered in Canada for one class with the Canada Intellectual Property Office. Our trademark registrations must be renewed at various times, and we intend to renew our trademarks, as necessary, for the foreseeable future.

In addition, we own www.transcat.com, www.transcat.ca and pipettes.com among other Internet domain names. As with phone numbers, we do not have, and cannot acquire any property rights to an Internet address. The regulation of domain names in the United States and in other countries is also subject to change. Regulatory bodies could establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we might not be able to maintain our domain names or obtain comparable domain names, which could harm our business.

SEASONALITY

Our business has certain historical seasonal factors. Historically, our fiscal third and fourth quarters have been stronger than our fiscal first and second quarters due to the operating cycles of our industrial sector customers. Our Distribution segment has historically been strongest in our third fiscal quarter while Service has historically been strongest in our fourth fiscal quarter.

FISCAL YEAR

We operate on a 52/53-week fiscal year, ending the last Saturday in March. In a 52-week fiscal year, each of the four quarters is a 13-week period. In a 53-week fiscal year, the last quarter is a 14-week period. Fiscal year 2021 and fiscal year 2020 both consisted of 52 weeks. Fiscal year 2022 which ends on March 26, 2022 ("fiscal year 2022") will also have 52 weeks.

ENVIRONMENTAL MATTERS

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

HUMAN CAPITAL MANAGEMENT

As of March 27, 2021, we had 765 employees, of which 685 were employed in the United States and 80 were employed outside of the United States. None of our employees are covered by collective bargaining agreements or work councils. Overall, we consider our employee relations to be good. Our culture is important to the overall success of the Company.

Health and Safety

The health and safety of our employees is of utmost importance to us. We conduct regular self-assessments and audits to ensure compliance with our health and safety guidelines and regulatory requirements. Our ultimate goal is to achieve a level of work-related injuries as close to zero as possible through continuous investment in our safety programs. We provide protective gear (e.g. eye protection, masks and gloves) as required by applicable standards and as appropriate given employee job duties. Additionally, during the COVID-19 pandemic, we have invested heavily in safety measures and other initiatives to help ensure the health of our employees.

Hiring Practices

We recruit the best people for the job without regard to gender, ethnicity or other protected traits and it is our policy to comply fully with all domestic, foreign and local laws relating to discrimination in the workplace.

Diversity and Inclusion

Recognizing and respecting our international presence, we strive to maintain a diverse and inclusive workforce everywhere we operate. Our diversity and inclusion principles are also reflected in our employee training, in particular with respect to our policies against harassment and bullying and the elimination of bias in the workplace.

In addition, to support mental health and emotional well-being, all employees and their dependents worldwide have access to an Employee Assistance Program ("EAP"), at no cost to them. This includes access to visits with mental health care providers through the EAP.

Compensation and Benefits

Our compensation and benefits program is designed to attract and reward individuals who demonstrate the skills necessary to support our business objectives, assist in the achievement of our strategic goals and create long-term value for our shareholders.

We provide employees with compensation packages that include base salary and may also include annual incentive bonuses and/or long-term incentive awards depending upon the employee’s level. We believe that a compensation program with both short-term and long-term awards provides fair and competitive compensation and aligns employee and shareholder interests. In addition to cash and equity compensation, we also offer employees benefits such as life and health (medical, dental and vision) insurance, paid time off, paid parental leave, and a 401(k) plan.

In response to the COVID-19 pandemic, we implemented significant changes that we determined were in the best interest of our employees as well as the communities in which we operate. This includes having the vast majority of our corporate employees work from home while also implementing a number of safety measures for employees continuing critical onsite work. Employees in our Calibration Service Centers were given additional COVID-19 paid time off as well as incremental pay if they were required to work offsite at a customer location.

AVAILABLE INFORMATION

We file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and other information with the Securities and Exchange Commission (“SEC”). Our filings with the SEC are available on the SEC’s website at www.sec.gov. We also maintain a website at www.transcat.com. We make available, free of charge, in the Investor Relations section of our website, documents we file with or furnish to the SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports. We make this information available as soon as reasonably practicable after we electronically file such materials with, or furnish such information to, the SEC. The other information found on our website is not part of this or any other report we file with, or furnish to, the SEC. Copies of such documents are available in print at no charge to any shareholder who makes a request. Such requests should be made to our corporate secretary at our corporate headquarters, 35 Vantage Point Drive, Rochester, New York 14624.

ITEM 1A. RISK FACTORS

You should carefully consider the following risks and all other information included in this report. The risks and uncertainties described below and elsewhere in this report are not the only ones facing our business. If any of the following risks were to actually occur, our business, financial condition or results of operations would likely suffer.

Macroeconomic and Business Risks

Our business, results of operations and financial condition may be adversely impacted by the COVID-19 pandemic. The COVID-19 pandemic has negatively affected the U.S. and global economies, disrupted global supply chains, resulted in significant travel and transport restrictions, and created significant disruption of the financial markets. We are closely monitoring the impact of the COVID-19 pandemic on all aspects of our business, including how it is impacting our customers, employees and supply chain. Given the critical nature of the services and products that we provide, our calibration labs, distribution centers and support offices have remained open during the pandemic. While the COVID-19 pandemic did not have a material adverse effect on our reported results for fiscal year 2021, we are unable to predict the ultimate impact that it may have on our business, future results of operations, financial position or cash flows. The extent to which our operations may be impacted by the COVID-19 pandemic and recovery will depend largely on future developments, which are highly uncertain and cannot be accurately predicted. We may experience additional operating costs due to increased challenges with our workforce (including as a result of illness, absenteeism or government orders), access to supplies, capital, and fundamental support services (such as shipping and transportation). Even after the COVID-19 pandemic has subsided, we may experience materially adverse impacts to our business due to any resulting supply chain disruptions, economic recession or depression. Furthermore, the impacts of a potential worsening of global economic conditions and the continued disruptions to and volatility in the financial markets remain unknown.

The impact of the COVID-19 pandemic may also exacerbate other risks discussed in this section, any of which could have a material adverse effect on us. This situation is changing rapidly and additional impacts may arise that we are not aware of currently.

The COVID-19 pandemic may significantly disrupt our workforce and internal operations. The COVID-19 pandemic may significantly disrupt our workforce if a significant percentage of our employees are unable to work due to illness, quarantines, government actions, facility closures in response to the pandemic, fear of acquiring COVID-19 while performing essential business functions, or as a result of changes to unemployment insurance where unemployed workers can receive, in the short-term, benefits in excess of what would be offered for working for us. As part of our response to the pandemic, during the first quarter of fiscal year 2021, we instituted hazard pay for certain employees that perform essential work at customer sites. While we remain fully operational as an essential business, we cannot guarantee that we will be able to adequately staff our operations when needed. We cannot predict the extent to which the COVID-19 pandemic may disrupt our workforce and internal operations.

We have taken certain precautions due to the COVID-19 pandemic that could negatively impact our business. In response to the COVID-19 pandemic, we have taken measures intended to protect the health and well-being of our employees, customers, and communities, which could negatively impact our business. These measures include temporarily requiring all non-essential employees (personnel whose roles allow) to work remotely, restricting work-related travel except for direct onsite service to our customers, restricting non-essential visitors from entering our sites, increasing the frequency and extent of cleaning and disinfecting facilities, workstations, and equipment, developing social distancing plans, and instituting specialized training to ensure the safe handling of our customers' critical equipment. The health of our workforce, customers and communities is of primary concern and we may take further actions as may be required by government authorities or as we determine are in the best interests of our employees, customers and others. In addition, our management team has, and will likely continue to, spend significant time, attention and resources monitoring the COVID-19 pandemic and seeking to manage its effects on our business and workforce. The extent to which the pandemic and our precautionary measures may impact our business will depend on future developments, which are highly uncertain and cannot be predicted at this time.

The industries in which we compete are highly competitive, and we may not be able to compete successfully. Within our Service segment, we provide calibration services and compete in an industry that is highly fragmented and is composed of companies ranging from internationally recognized and accredited corporations to non-accredited sole proprietors, resulting in a tremendous range of service levels and capabilities. Also, within our Service segment, we provide compliance services and compete in an industry that is composed of both small local and regional service providers and large multi-national companies who are also OEMs. Within our Service segment, some of our larger competitors may have broader service capabilities and may have greater name recognition than us. Some manufacturers of the products we sell may also offer calibration and compliance services for their products.

Within our Distribution segment, we compete with numerous companies, including several major manufacturers and distributors. Most of our products are available from several sources and our customers tend to have relationships with several distributors. Competitors in the product distribution industry could also obtain exclusive rights to market particular products, which we would then be unable to market. Manufacturers could also increase their efforts to sell directly to end-users and bypass distributors like us. Industry consolidation among distributors, the unavailability of products, whether due to our inability to gain access to products or interruptions in supply from manufacturers, including as a result of the COVID-19 pandemic, or the emergence of new competitors could also increase competition and adversely affect our business or results of operations.

In each of the industries in which we compete, some of our competitors have greater financial and other resources than we do, which could allow them to compete more successfully. In the future, we may be unable to compete successfully and competitive pressures may reduce our sales.

Competition in our Distribution segment is changing with an increase in web-based distributors. We may not be able to compete successfully. We face substantial and increased competition throughout the world, especially in our Distribution segment. The competition is changing, with web-based distributors becoming more prevalent and increasing their market share. Some of our competitors are much larger than us. Changes in the competitive landscape pose new challenges that could adversely affect our ability to compete. Entry or expansion of other vendors into this market may establish competitors that have larger customer bases and substantially greater financial and other resources with which to pursue marketing and distribution of products. Their current customer base and relationships, as well as their relationships and ability to negotiate with manufacturers, may also provide them with a competitive advantage. If we are unable to effectively compete with our current and future competitors, our ability to sell products could be harmed and could result in a negative impact on our Distribution segment. Any erosion of our competitive position could have a material adverse effect on our business, results of operations, and financial condition.

Volatility in the oil and gas industry has had, in the past, and could have in the future, a negative impact on our operating results. A portion of our products and services customer base is directly or indirectly related to the oil and gas industry. As a result, demand for some of our products is dependent on the level of expenditures by the oil and gas industry. In addition to the more significant impact on our Distribution segment, an extended downturn in the oil and gas industry or continued volatility in oil and gas prices could impact customers' demand for some of our services (generally excluding life sciences, our largest industry customer sector), which could have a material adverse effect on our financial condition, results of operations and cash flows.

Our Service segment has a concentration of customers in the life science and other FDA-regulated and industrial manufacturing industries. A number of our Service segment customers operate in the pharmaceutical and other FDA-regulated or industrial manufacturing industries. This concentration of our customer base affects our overall risk profile, since a significant portion of our customers would be similarly affected by changes in economic, political, regulatory, and other industry conditions. An abrupt or unforeseen change in conditions in these industries could adversely affect customer demand for our services, which could have a material adverse effect on our financial results.

Adverse changes in general economic conditions or uncertainty about future economic conditions, including economic uncertainty from the current pandemic, could adversely affect us. We are subject to the risks arising from adverse changes in general economic market conditions, including the negative impact to the U.S. and global economy from the COVID-19 pandemic. Uncertainty about future economic conditions could negatively affect our current and prospective customers causing them to delay the purchase of necessary services or test and measurement instruments. Poor economic conditions could harm our business, financial condition, operating results and cash flows.

Tariffs imposed by the U.S. and those imposed in response by other countries, as well as rapidly changing trade relations, could have a material adverse effect on our business and results of operations. Changes in U.S. and foreign governments' trade policies have resulted in, and may continue to result in, tariffs on imports into and exports from the U.S. In response, some foreign governments have proposed or implemented their own tariffs on certain products, increasing our costs of doing business. If we are unable to recover these costs, our profit margins may be negatively impacted. In addition, significant changes to U.S. trade policy may occur as a result of the change in the U.S. President and administration, including the U.S. re-entering, withdrawing from or renegotiating various trade agreements, or other actions that would change current U.S. trade policies. We cannot predict which, if any, of these actions will be taken or, if taken, their ultimate effect. Continued diminished trade relations between the U.S. and other countries, as well as the continued escalation of tariffs, could have a material adverse effect on our financial performance and results of operations.

Any impairment of goodwill or intangible assets could negatively impact our results of operations. Our goodwill and intangible assets are subject to an impairment test on an annual basis and are also tested whenever events and circumstances indicate that goodwill and/or intangible assets may be impaired. Any excess goodwill and/or indefinite-lived intangible assets value resulting from the impairment test must be written-off in the period of determination. Intangible assets (other than goodwill and indefinite-lived intangible assets) are generally amortized over the useful life of such assets. In addition, from time to time, we may acquire or make an investment in a business that will require us to record goodwill based on the purchase price and the value of the acquired tangible and intangible assets. We may subsequently experience unforeseen issues with the businesses we acquire, which may adversely affect the anticipated returns of the business or value of the intangible assets and trigger an evaluation of the recoverability of the recorded goodwill and intangible assets for such business. Future determinations of significant write-offs of goodwill or intangible assets because of an impairment test or any accelerated amortization of other intangible assets could have a material negative impact on our results of operations and financial condition.

OPERATIONAL RISKS

Cybersecurity incidents could adversely affect our business by causing a disruption to our operations, a compromise or corruption of our confidential information and/or damage to our business relationships, all of which could negatively impact our business, results of operations or financial condition. We rely extensively on information technology ("IT") systems, some of which are provided by third parties, to support our business activities, including for orders and the storage, processing and transmission of our electronic, business-related, information assets used in or necessary to conduct business. The data we store and process may include customer payment information, personal information concerning our employees, confidential financial information and other types of sensitive business-related information. Numerous and evolving cybersecurity threats pose potential risks to the security of our IT systems, networks and services, as well as the confidentiality, availability and integrity of our data. To mitigate the spread of COVID-19, some of our office personnel transitioned to remote work environments which may exacerbate various cybersecurity risks to our business, including an increased risk of phishing and other social engineering attacks, and an increased risk of unauthorized dissemination of sensitive personal, proprietary or other confidential information. Global cybersecurity threats can range from uncoordinated individual attempts to gain unauthorized access to our IT systems to sophisticated and targeted measures known as advanced persistent threats. The techniques used in these attacks change frequently and may be difficult to detect for periods of time and we may face difficulties in anticipating and implementing adequate preventative measures. While we employ comprehensive measures to prevent, detect, address and mitigate these threats (including access controls, data encryption, vulnerability assessments, management training, continuous monitoring of our IT networks and systems and maintenance of backup and protective systems), cybersecurity incidents, depending on their nature and scope, could potentially result in the misappropriation, destruction, corruption or unavailability of critical data or proprietary information and the disruption of business operations. The potential consequences of a material cybersecurity incident include reputational damage, compromised employee, customer, or third-party information, litigation with third parties, regulatory actions, and increased cybersecurity protection and remediation costs, which in turn could adversely affect our business and results of operations. In addition, the laws and regulations governing security of data on IT systems and otherwise held by companies is evolving and adding layers of complexity in the form of new requirements and increasing costs of attempting to protect IT systems and data and complying with new cybersecurity regulations.

If we experience a significant disruption in, or breach in security of, our IT systems, or if we fail to implement new systems and software successfully, our business could be adversely affected. Our IT systems may be susceptible to damage, disruptions or shutdowns due to power outages, hardware failures, telecommunication failures, user errors, catastrophes or other unforeseen events. Our IT systems also may experience interruptions, delays or cessations of service or produce errors in connection with system integration, software upgrades or system migration work that takes place from time to time. In addition, technology resources may be strained due to the increase in the number of remote users in response to the COVID-19 pandemic. If we were to experience a prolonged system disruption in the IT systems that involve our interactions with customers or suppliers, it could result in the loss of sales and customers and significant incremental costs, which could adversely affect our business.

Our revenue and ability to achieve our stated corporate objectives depends on our senior management and our ability to retain recruit, train and retain quality employees. Our success is dependent on our senior management and our ability to attract, retain and motivate qualified personnel, especially skilled service technicians. Competition for senior management is intense, and we may not be successful in attracting and retaining key personnel. Qualified skilled service technicians are in high demand and are subject to competing offers. The ability to meet our labor needs while controlling costs associated with hiring and training new employees is subject to external factors such as unemployment levels and prevailing wage rates. The loss of services of any member of our senior management team or key employees, and the inability to attract and retain other qualified personnel, especially skilled service technicians, could affect our ability to achieve our stated corporate objectives and could adversely impact our business and results of operations.

We expect that our quarterly results of operations will fluctuate. Such fluctuations could cause our stock price to decline. A large portion of our expenses for our Service segment, including expenses for facilities, equipment and personnel are relatively fixed. Accordingly, if revenues decline or do not grow as we anticipate, we may not be able to correspondingly reduce our expenses in any particular quarter. Our quarterly revenues and operating results have fluctuated in the past and are likely to do so in the future. Historically, our fiscal third and fourth quarters have been stronger than our fiscal first and second quarters due to industrial operating cycles. Fluctuations in industrial demand for products we sell and services we provide, including as a result of the COVID-19 pandemic, could cause our revenues and operating results to fluctuate. If our operating results in some quarters fail to meet the expectations of stock market analysts and investors, our stock price may decline.

If we do not effectively compete in the rental test and measurement equipment market, our operating results may be adversely affected. We compete in the rental market on the basis of a number of factors, including equipment availability, price, service and reliability. Some of our competitors may offer similar equipment for rent at lower prices and may offer more extensive servicing, or financing options. In addition, if the supply of rental equipment available on the market significantly increases, demand for and pricing of our rental products could be adversely impacted lowering our gross margins on rentals. Further, customers confronting competing budget priorities and more limited resources as a result of the COVID-19 pandemic could lead to less demand for rental equipment and increased pressure on pricing. Failure to adequately forecast the adoption of and demand for equipment may cause us not to meet our customers' rental equipment requirements and may adversely affect our operating results.

If we fail to adapt our technology to meet customer needs and preferences, the demand for our products and services may diminish. Our future success will depend on our ability to develop services and solutions that keep pace with technological change, evolving industry standards and changing customer preferences in the markets we serve. We cannot be sure that we will be successful in adapting existing or developing new technology or services in a timely or cost-effective manner or that the solutions we do develop will be successful in the marketplace. Our failure to keep pace with changes in technology, industry standards and customer preferences in the markets we serve could diminish our ability to retain and attract customers and retain our competitive position, which could adversely impact our business and results of operations.

We rely on our CalTrak®, Application Plus (our enterprise resource planning system) and other management information systems for inventory management, distribution, workflow, accounting and other functions. If our CalTrak®, Application Plus or other management information systems fail to adequately perform these functions, experience an interruption in their operation or a security breach, our business and results of operations could be adversely affected. The efficient operation of our business depends on our management information systems. We rely on our CalTrak®, Application Plus and other management information systems to effectively manage accounting and financial functions, customer service, warehouse management, order entry, order fulfillment, inventory replenishment, documentation, asset management, and workflow. Our management information systems are vulnerable to damage or interruption from computer viruses or hackers, natural or man-made disasters, vandalism, terrorist attacks, power loss, or other computer systems, internet, telecommunications or data network failures. Any such interruptions to our management information systems could disrupt our business and could result in decreased revenues, increased overhead costs, excess inventory and product shortages, causing our business and results of operations to suffer. In addition, our management information systems are vulnerable to security breaches. Our security measures or those of our third-party service providers may fail to detect or prevent such security breaches. Security breaches could result in the unauthorized publication of our confidential business or proprietary information, the unauthorized release of customer, vendor, or employee data and payment information, the violation of privacy or other laws, and the exposure to litigation, any of which could harm our business and results of operations.

Our enterprise resource planning system is aging, and we may experience issues from any implementation of a new enterprise resource planning system. We have an enterprise resource planning system ("ERP") to assist with the collection, storage, management and interpretation of data from our business activities to support future growth and to integrate significant processes. Although we use current versions of software and have support agreements in place, due to the age of our ERP, we anticipate that a new ERP will be required to be implemented sometime in the future. ERP implementations are complex and time-consuming and involve substantial expenditures on system software and implementation activities, as well as changes in business processes. Our ERP system is critical to our ability to accurately maintain books and records, record transactions, provide important information to our management and prepare our consolidated financial statements. ERP implementations also require the transformation of business and financial processes in order to reap the benefits of the ERP system; any such transformation involves risks inherent in the conversion to a new computer system, including loss of information and potential disruption to our normal operations. Any disruptions, delays or deficiencies in the design and implementation of a new ERP system could adversely affect our ability to process orders, provide services and customer support, send invoices and track payments, fulfill contractual obligations or otherwise operate our business. Additionally, if the ERP system does not operate as intended, the effectiveness of our internal control over financial reporting could be adversely affected or our ability to assess it adequately could be delayed.

A change in vendor rebate programs could adversely affect our gross margins and results of operations. The terms on which we purchase products from certain of our suppliers entitle us to receive a rebate based on the volume of our purchases. These rebates effectively reduce our costs for products. During fiscal year 2021, we saw a number of our vendors significantly reduce the rebates offered to us as they implemented cost cutting measures in response to the COVID-19 pandemic. We recorded vendor rebates of $0.7 million and $1.6 million in fiscal years 2021 and 2020, respectively, as a reduction of cost of distribution sales. If suppliers adversely change the terms of some or all of these programs, or COVID-19 pandemic related cost-cutting measures continue after the recovery from the pandemic, the changes may lower our gross margins on products we sell and may have an adverse effect on our operating results.

We depend on manufacturers to supply inventory to our Distribution segment and if our vendors fail to provide desired products to us, increase prices, or fail to timely deliver products, our revenue and gross profit could suffer. Like other distributors in our industry, we occasionally experience supplier shortages and are unable to purchase our desired volume of products. If we are unable to enter into and maintain satisfactory distribution arrangements with leading manufacturers, if we are unable to maintain an adequate supply of products, or if manufacturers do not regularly invest in, introduce to us, and/or make new products available to us for distribution, our Distribution segment sales could suffer considerably. The COVID-19 pandemic has disrupted the supply of products, and we may experience increased difficulties in obtaining products at stable pricing levels. As a result, we may need to restructure or change some of our product lines in the future. We cannot provide any assurance that particular products, or product lines, will be available to us, or available in quantities sufficient to meet customer demand. This is of particular significance to our Distribution segment business because the products we sell are often only available from one source. Any limits to product access could materially and adversely affect our Distribution segment business.

Our future success may be affected by our current and future indebtedness. Under our credit agreement, as of March 27, 2021, we owed $19.6 million to our secured creditor, a commercial bank, including $10.6 million borrowed under a $15.0 million term loan to fund acquisitions and provide additional working capital. We may borrow additional funds in the future to support our growth and working capital needs. We are required to meet financial tests on a quarterly basis and comply with other covenants customary in secured financings. Although we believe that we will continue to comply with such covenants, if we do not remain in compliance with such covenants, our lender may demand immediate repayment of amounts outstanding. Furthermore, we are dependent on credit from manufacturers of our products to fund our inventory purchases. If our debt burden increases to high levels, such manufacturers may restrict our credit. Our cash requirements will depend on numerous factors, including the rate of growth of our revenues, the timing and levels of products purchased, payment terms, and credit limits from manufacturers, the timing and level of our accounts receivable collections and our ability to manage our business profitably. Our ability to satisfy our existing obligations, whether or not under our secured credit facility, will depend upon our future operating performance, which may be impacted by prevailing economic conditions and financial, business, and other factors described in this report, many of which are beyond our control.

We face risks associated with foreign currency rate fluctuations. We currently transact a portion of our business in foreign currencies, namely the Canadian dollar. During fiscal years 2021 and 2020, less than 10% of our total revenues were denominated in Canadian dollars. Conducting business in currencies other than U.S. dollars subjects us to fluctuations in currency exchange rates that could have a negative impact on our reported operating results. Fluctuations in the value of the U.S. dollar relative to the Canadian dollar impact our revenues, cost of revenues and operating margins and result in foreign currency transaction gains and losses. During fiscal years 2021 and 2020, the value of the U.S. dollar relative to one Canadian dollar ranged from 1.24 to 1.42 and from 1.30 to 1.45, respectively.

We continually utilize short-term foreign exchange forward contracts to reduce the risk that our earnings would be adversely affected by changes in currency exchange rates. However, this strategy does not eliminate our exposure. If there is a significant or prolonged downturn in the Canadian dollar, it could have an adverse impact on our business and financial condition.

Our inability to adequately enforce and protect our intellectual property or defend against assertions of infringement could prevent or restrict our ability to compete. We rely on intellectual property in order to maintain a competitive advantage. Our inability to defend against the unauthorized use of these assets could have an adverse effect on our results of operations and financial condition. Litigation may be necessary to protect our intellectual property rights or defend against claims of infringement. This litigation could result in significant costs and divert our management's focus away from operations.

Hurricanes, other adverse weather events, national or regional catastrophes or natural disasters could negatively affect the local economies we serve or disrupt our operations, which could have an adverse effect on our business or results of operations. Our market areas include the Gulf Coast and Mid-Atlantic regions of the United States, and Puerto Rico, which are susceptible to hurricanes. Such weather events can disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. Future hurricanes could result in damage to certain of our facilities and the equipment located at such facilities, or equipment on rent with customers in those areas. Even if our properties suffer no direct damage from such events, the operations of our customers could be disrupted, and our supply chain impacted. In addition, climate change could lead to an increase in intensity or occurrence of hurricanes or other adverse weather events, including severe winter storms. Future occurrences of these events, as well as regional or national catastrophes or natural disasters, and their effects may adversely impact our business or results of operations.

Risks Related to Acquisitions

We may not successfully integrate business acquisitions. We completed one acquisition during fiscal year 2021 and three acquisitions during fiscal year 2020. If we fail to accurately assess and successfully integrate any recent or future business acquisitions, we may not achieve the anticipated benefits, which could result in lower revenues, unanticipated operating expenses, reduced profitability and dilution of our book value per share. Successful integration involves many challenges, including:

- The difficulty of integrating acquired operations and personnel with our existing operations, which could be exacerbated by the impact of the COVID-19 pandemic;
- The difficulty of developing and marketing new products and services;
- The diversion of our management's attention as a result of evaluating, negotiating and integrating acquisitions;
- Our exposure to unforeseen liabilities of acquired companies; and
- The loss of key employees of an acquired operation.

In addition, an acquisition could adversely impact cash flows and/or operating results, and dilute shareholder interests, for many reasons, including:

- Charges to our income to reflect the impairment of acquired intangible assets, including goodwill;
- Interest costs and debt service requirements for any debt incurred in connection with an acquisition or new business venture; and
- Any issuance of securities in connection with an acquisition or new business venture that dilutes or lessens the rights of our current shareholders.

If the integration of any or all of our acquisitions or future acquisitions is not successful, it could have a material adverse impact on our operating results and stock price.

Our future business acquisition efforts may not be successful, which may limit our growth or adversely affect our results of operations, and financing of any future acquisitions could result in shareholder dilution and/or increase our leverage. Business acquisitions are an important part of our growth strategy. If we identify an appropriate acquisition candidate, we may not be able to successfully negotiate terms or finance the acquisition. If disruptions from the COVID-19 pandemic and related government measures, economic downturns or other matters of global concern continue for an extensive period of time or recur, our ability to pursue and consummate potential acquisitions could be materially adversely affected. In addition, to successfully complete targeted acquisitions, we may issue additional equity securities that could dilute our stockholders' ownership, or we may incur additional debt, which could increase our leverage and our risk of default under our existing credit facility. If we fail to successfully acquire businesses, our growth and results of operations could be adversely affected.

RISKS RELATED TO OUR STOCK

Our stock price may be volatile. The stock market, from time to time, has experienced significant price and volume fluctuations that are both related and unrelated to the operating performance of companies. Our stock may be affected by market volatility and by our own performance. The following factors, among others, may have a significant effect on the market price of our common stock:

- The impact of the COVID-19 pandemic on the capital markets;
- Developments in our relationships with current or future manufacturers of products we distribute;
- Announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- Litigation or governmental proceedings or announcements involving us or our industry;
- Economic and other external factors, such as disasters or other crises;
- Sales of our common stock or other securities in the open market; 18
- Repurchases of our common stock on the open market or in privately-negotiated transactions;
- Period-to-period fluctuations in our operating results; and
- Our ability to satisfy our debt obligations.

The relatively low trading volume of our common stock may limit your ability to sell your shares. Although our shares of common stock are listed on the Nasdaq Global Market, we have historically experienced a relatively low trading volume of approximately 30,000 shares a day. If our low trading volume continues in the future, holders of our shares may have difficulty selling shares of our common stock in the manner or at a price that they desire.

If significant existing shareholders sell large numbers of shares of our common stock, our stock price could decline. The market price of our common stock could decline if a large number of our shares are sold in the public market by our existing shareholders or as a result of the perception that such sales could occur. Due to the relatively low trading volume of our common stock, the sale of a large number of shares of our common stock may significantly depress the price of our common stock.

REGULATORY RISKS

Tax rates applicable to us may change. Tax legislation initiatives could adversely affect our net earnings and tax liabilities. We are subject to the tax laws and regulations of the United States federal, state and local governments, as well as foreign jurisdictions. From time to time, various legislative initiatives may be enacted that could adversely affect our tax positions. Tax laws and regulations are extremely complex and subject to varying interpretations. The Tax Cuts and Jobs Act of 2017 (the “Tax Act”) made broad and complex changes to the U.S. tax code, including, but not limited to reducing the Federal corporate income tax rate from 35% to 21%. The current U.S. President and administration, however, have indicated that they intend to modify key aspects of the tax code, which could materially affect our tax obligations and negatively impact our effective tax rate. Although we believe that our tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that our tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge.

Changes in accounting standards, legal requirements and the Nasdaq Global Market listing standards, or our ability to comply with any existing requirements or standards, could adversely affect our operating results. Extensive reforms relating to public company financial reporting, corporate governance and ethics, the Nasdaq Global Market listing standards and oversight of the accounting profession have been implemented over the past several years and continue to evolve. Compliance with these rules, regulations and standards that have resulted from such reforms has increased our accounting and legal costs and has required significant management time and attention. In the event that additional rules, regulations or standards are implemented or any of the existing rules, regulations or standards to which we are subject undergoes additional material modification, we could be forced to spend significant financial and management resources to ensure our continued compliance, which could have an adverse effect on our results of operations. In addition, although we believe we are in full compliance with all such existing rules, regulations and standards, should we be or become unable to comply with any of such rules, regulations and standards, as they presently exist or as they may exist in the future, our results of operations could be adversely affected and the market price of our common stock could decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table presents our leased and owned properties as of March 27, 2021:

Property	Location	Approximate Square Footage
Corporate Headquarters, Calibration Service Center and Distribution Center	Rochester, NY	48,500
Calibration Service Center and Headquarters for Canadian Operations	Montreal, QC	27,500
Calibration Service Center, Rental and Used Equipment Distribution Center.	Houston, TX	22,300
Calibration Service Center	Denver, CO	19,400
Calibration Service Center	Toronto, ON	14,200
Calibration Service Center	Los Angeles, CA	12,000
Calibration Service Center	Philadelphia, PA	10,800
Calibration Service Center	Dayton, OH	10,500
Calibration Service Center	Boston, MA	8,900
Calibration Service Center	Portland, OR	7,000
Calibration Service Center	Hopkinton, MA	6,100
Calibration Service Center	St. Louis, MO	5,600
Calibration Service Center	San Diego, CA	5,500
Calibration Service Center	Charlotte, NC	4,900
Calibration Service Center	Chesapeake, VA	4,600
Calibration Service Center	Phoenix, AZ	4,200
Calibration Service Center	Ottawa, ON	4,000
Calibration Service Center	Henrico, VA	3,600
Calibration Service Center	Ft. Wayne, IN	3,600
Calibration Service Center	San Juan, PR	1,600
Mobile Service Unit and Offices	Pittsburgh, PA	6,300
Sales Office	Irvine, CA	1,800
United Scale & Engineering:		
Calibration Service Center and Warehouse	Milwaukee WI	16,000
Calibration Service Center and Warehouse	Madison, WI	6,000
Calibration Service Center.	Green Bay, WI	3,300
Spectrum Technologies Inc. (“STI”):		
Calibration Service Center and Warehouse	Paxinos, PA	14,500
STI Satellite Service Office	Bakersfield, CA	1,200
STI Satellite Service Office	Toronto, ON	900
STI Satellite Service Office	Omaha, NE	800
STI Satellite Service Office	Birmingham, AL	500
STI Satellite Service Office	LaCrosse, WI	300
STI Satellite Service Office	Melrose, FL	200
STI Satellite Service Office	Mt. Airy, NC	200

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

ITEM 3. LEGAL PROCEEDINGS

From time to time we are a party to or otherwise involved in legal proceedings arising out of the normal course of business. Management does not believe that there is any pending or threatened proceeding against us, which, if determined adversely, would have a material adverse effect on our business, results of operations or financial condition.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Nasdaq Global Market under the symbol "TRNS". As of June 3, 2021, we had approximately 450 shareholders of record.

DIVIDENDS

Our credit agreement, as amended, limits our ability to pay cash dividends to $3.0 million in any fiscal year. We have not declared any cash dividends since our inception and have no current plans to pay any dividends in the foreseeable future.

ITEM 6. RESERVED

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

OVERVIEW

Operational Overview

We are a leading provider of accredited calibration, repair, inspection and laboratory instrument services and a value-added distributor of professional grade handheld test, measurement and control instrumentation.

We operate our business through two reportable business segments, Service and Distribution, which offer a comprehensive range of services and products to the same customer base.

Our strength in our Service segment is based upon our wide range of disciplines, our investment in quality systems and our ability to provide accredited calibrations to customers in highly-regulated targeted market segments. Our services range from the calibration and repair of a single unit to managing a customer's entire calibration program. We believe our Service segment offers an opportunity for long-term growth and the potential for continuing revenue from established customers with regular calibration cycles and recurring laboratory instrument service requirements.

Our Service segment has shown consistent revenue growth over the past several years, ending fiscal year 2021 with its 48th consecutive quarter of year-over-year growth. This segment has benefited from both organic growth as well as acquisitions over those 48 quarters. The business acquisitions that we made have been heavily focused on expanding our service capabilities, increasing our geographic reach and leveraging our Calibration Service Centers and other infrastructure to create operational synergies.

Our total Service revenue growth was 8.9% for fiscal year 2021 compared to fiscal year 2020, despite the COVID-19 pandemic. The Service segment gross margin increased by 500 basis points. Service gross profit and gross margin were positively impacted by ongoing productivity improvements, operating leverage from organic growth, strategic pricing and accretive margins from the pipettes.com and Bio Tek acquisitions.

In our Distribution segment, we sell and offer for rent, professional grade handheld test and measurement instruments. Because we specialize in professional grade handheld test and measurement instruments, as opposed to a wide array of industrial products, our sales and customer service personnel can provide value-added technical assistance to our customers to aid them in determining what product best meets their particular application requirements. We have expertise in the procurement and sale of used equipment, furthering our ability to add value for our customers. We also have a higher-end electronic test and measurement equipment rental business that augments our organically grown test and measurement equipment rental business. Through our website and sales teams, customers can place orders for test and measurement instruments and can elect to have their purchased instruments calibrated and certified by our Calibration Service Centers before shipment as well as on regular post-purchase intervals. Pre-shipment calibration and certification allows our customers to place newly purchased instruments into service immediately upon receipt.

Sales in our Distribution segment are generally not consumable items but are instruments purchased as replacements, upgrades or for expansion of manufacturing or research and development facilities. As such, this segment can be heavily impacted by changes in the economic environment. As customers increase or decrease capital and discretionary spending, our Distribution sales will typically be directly impacted. In fiscal year 2021, Distribution sales decreased by 10.0%. These sales results were impacted by the COVID-19 pandemic, with reduced demand from oil and gas related businesses and most other industrial manufacturing sectors. In fiscal year 2020, Distribution sales increased by 4.2%. These results were driven by increased demand and revenue in all channels, especially in the alternative energy sector, used equipment and rental revenue. Overall, the Distribution segment gross margin in fiscal year 2021 decreased by 230 basis points. The decrease in segment gross margin was primarily due to reduced cooperative advertising and rebate programs as certain vendors reduced these programs to lower their costs in response to the COVID-19 pandemic.

Initiatives implemented within this segment include adding new in-demand vendors and product lines, expanding the number of SKUs that we offer with and without pre-shipment calibration and offering equipment rental and used equipment options. Management believes this diversification strategy will mitigate the impact that any particular industry or sector will have on the overall performance of this segment as well as help to further differentiate us from our competitors going forward.

Financial Overview

In evaluating our results for fiscal year 2021, investors should consider that we operate on a 52/53-week fiscal year, ending the last Saturday in March. In a 52-week fiscal year, each of the four quarters is a 13-week period. In a 53-week fiscal year, the last quarter is a 14-week period. Fiscal years 2021 and 2020 both consisted of 52 weeks.

Management's discussion and analysis of financial condition and results of operations for the fiscal year ended March 27, 2021 omits a comparative discussion regarding the fiscal year ended March 30, 2019. Such information is located in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the fiscal year ended March 28, 2020.

Total revenue for fiscal year 2021 was $173.3 million. This represented an increase of $0.2 million or 0.1% versus total revenue of $173.1 million for fiscal year 2020. Total revenue was relatively flat year-over-year due to the combination of increases in Service revenue offset by decreases in Distribution sales.

Service revenue was $101.3 million in fiscal year 2021, an increase of $8.3 million or 8.9%. Service revenue now accounts for 58.4% of our total revenue. Of our Service revenue in fiscal year 2021, 83.6% was generated by our Calibration Service Centers while 14.9% was generated through subcontracted third-party vendors, compared with 83.5% and 14.9%, respectively, in fiscal year 2020. The remainder of our Service revenue in each period was derived from freight charges.

Distribution sales decreased 10.0% to $72.1 million in fiscal year 2021. Distribution sales accounted for 41.6% of our total revenue. Sales to domestic customers comprised 92.8% of total Distribution sales in fiscal year 2021, while 6.1% were to Canadian customers and 1.1% were to customers in other international markets.

Total gross profit was $46.1 million in fiscal year 2021 compared to $42.5 million in fiscal year 2020, an increase of $3.6 million or 8.6%. Total gross margin was 26.6%, which is a 210 basis point increase versus fiscal year 2020. Service gross margin was 30.3% in fiscal year 2021 compared with 25.3% in fiscal year 2020. Distribution gross margin was 21.4% in fiscal year 2021 compared with 23.7% in fiscal year 2020.

Operating expenses were $35.0 million, or 20.2% of total revenue, in fiscal year 2021 compared with $31.6 million, or 18.3% of total revenue, in fiscal year 2020. Operating income was $11.1 million, or 6.4% of total revenue, in fiscal year 2021 compared with $10.9 million, or 6.3% of total revenue, in fiscal year 2020.

Net income for fiscal year 2021 was $7.8 million compared with $8.1 million in fiscal year 2020, a $0.3 million decrease. Diluted earnings per share for fiscal year 2021 was $1.03 compared with $1.08 for fiscal year 2020, a $0.05 per diluted share decline.

COVID-19 Impact

The COVID-19 pandemic had a negative impact on our fiscal year 2021 operations and financial results, and even with the vaccine roll-outs and mask mandates being lifted, the full financial impact of the pandemic going forward cannot be reasonably estimated at this time due to uncertainty as to its severity and duration, especially as new variants continue to appear. We have taken steps to help mitigate the current impact, as well as the continued uncertainty regarding the ultimate impact of the COVID-19 pandemic on our business, results of operations, financial position and cash flows.

- Currently, our network of labs, distribution center and support facilities remain fully operational. We do not anticipate disruptions to the Distribution supply chain in the short-term and are working with partners to minimize any potential delays.
- We have established a cross-functional COVID-19 task force, which meets regularly, to standardize continuity plans and daily practices across the 42 Calibration Service Centers, client-based labs and our distribution/rental operations for responding to the rapidly changing issues around this global pandemic. Actions instituted include:
    - Adhering to guidelines and recommendations of the Centers for Disease Control and Prevention and World Health Organization to reduce the spread of COVID-19;
    - Established a pandemic protocol across the organization to ensure continuous service to customers and mitigate risk;
    - Suspended all work-related travel except for direct onsite service to customers. When performing necessary onsite service for customers, we are following recommended protocols including self-assessments and travel disclosures and asking the same from our customers;
    - Required personnel whose roles allow to work remotely from home in order to adhere to the social distancing recommendations issued by global health officials;
    - Aligned variable costs with demand, a freeze on wage increases, and tightly controlling discretionary spending;
    - Reduced the CEO's salary and Board of Director cash retainer fees by 20% and reduced other executive team members salaries by 10% during the first and second quarters of fiscal 2021;
    - Leveraging government work programs, tax deferrals and extensions; and
    - Amended our revolving credit facility to provide for, among other things, $10.0 million in additional borrowing capacity and financial covenant modifications.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Use of Estimates

The preparation of our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States ("GAAP") requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to, allowance for doubtful accounts and returns, inventory reserves, estimated levels of achievement for performance-based restricted stock units, fair value of stock options, depreciable lives of fixed assets, estimated lives of major catalogs and intangible assets, and the valuation of assets acquired and liabilities assumed in business acquisitions. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our Consolidated Financial Statements will change as new events occur, as more experience is acquired, as additional information is obtained, and as our operating environment changes. Our estimates are evaluated on an ongoing basis and are drawn from historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates. Such changes and refinements in estimation methodologies are reflected in reported results of operations in the period in which the changes are made and, if material, their effects are disclosed in the Notes to our Consolidated Financial Statements.

The following items in our Consolidated Financial Statements require significant estimation or judgment:

Accounts Receivable

Accounts receivable represent amounts due from customers in the ordinary course of business. These amounts are recorded net of the allowance for doubtful accounts and returns in the Consolidated Balance Sheets. The allowance for doubtful accounts is based upon the expected collectability of accounts receivable. We apply a specific formula to our accounts receivable aging, which may be adjusted on a specific account basis where the formula may not appropriately reserve for loss exposure. After all attempts to collect a receivable have failed, the receivable is written-off against the allowance for doubtful accounts. The returns reserve is calculated based upon the historical rate of returns applied to revenues over a specific timeframe. The returns reserve will increase or decrease as a result of changes in the level of revenues and/or the historical rate of returns. Management believes that the allowances are appropriate to cover anticipated losses under current conditions. However, unexpected changes or deterioration in economic conditions could materially change these expectations.

Inventory

Inventory consists of products purchased for resale and is valued at the lower of cost or net realizable value. Costs are determined using the average cost method of inventory valuation. Inventory is reduced by a reserve for items not saleable at or above cost by applying a specific loss factor, based on historical experience and current demand, to specific categories of our inventory. Inventory is at risk of obsolescence if economic conditions change. Relevant economic conditions include changing consumer demand, customer preferences or increasing competition. We believe these risks are largely mitigated because our inventory typically turns several times per year. We evaluate the adequacy of the reserve on a quarterly basis.

Business Acquisitions

We apply the acquisition method of accounting for business acquisitions. Under the acquisition method, identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair value. We use a valuation hierarchy to determine the fair values used. Historically, we have relied, in part, upon the use of reports from third-party valuation specialists to assist in the estimation of fair values. Purchase price allocations are subject to revision within the measurement period, not to exceed one year from the date of acquisition. Administration costs to acquire a business may include, but are not limited to, fees for accounting, legal and valuation services and are recorded as incurred in our Consolidated Statement of Income.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the values assigned to the underlying net assets of an acquired business and is not amortized. As of March 27, 2021, we had $43.3 million of recorded goodwill.

Intangible assets, namely customer base and covenants not to compete, represent an allocation of purchase price to identifiable intangible assets of an acquired business. These intangible assets are amortized over their estimated useful lives and are reviewed for impairment if and when indicators are present. We estimate the fair value of our reporting units using the fair market value measurement requirement.

We test goodwill for impairment on an annual basis during the fourth quarter of each fiscal year or immediately if conditions indicate that such impairment could exist. We have the option to perform a qualitative assessment to determine if it is more likely than not that the fair value of a segment has declined below its carrying value. This assessment considers various financial, macroeconomic, industry and segment specific qualitative factors.

Intangible assets are evaluated for impairment when events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Based on the results of our reviews, we have determined that no impairment was indicated as of each of the fiscal years ended March 27, 2021 and March 28, 2020.

Income Taxes

We record deferred income taxes for the effects of timing differences between financial and tax reporting. These differences relate primarily to accrued expenses, bad debt reserves, inventory reserves, operating leases, goodwill and intangible assets, depreciation and amortization and stock based compensation. We base our deferred income taxes, accrued income taxes and provision for income taxes upon income, statutory tax rates, the legal structure of our Company, interpretation of tax laws and tax planning opportunities available to us in the various jurisdictions in which we operate. We file income tax returns in the U.S. federal jurisdiction, various states and Canada. We are regularly audited by federal, state and foreign tax authorities, but a number of years may elapse before an uncertain tax position, for which we have unrecognized tax benefits, is audited and finally resolved. From time to time, these audits result in assessments of additional tax. If a loss is determined to be probable as a result of an audit, an accrual is established.

We apply a more-likely-than-not threshold to the recognition and derecognition of uncertain tax positions. Accordingly, we recognize the amount of tax benefit that has a greater than 50% likelihood of being ultimately realized upon settlement. Future changes in judgments and estimates related to the expected ultimate resolution of uncertain tax positions will affect income in the quarter of such change. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our unrecognized tax benefits reflect the most likely outcome.

Stock-Based Compensation

We measure the cost of services received in exchange for all equity awards granted, including stock options and restricted stock units, based on the fair market value of the award as of the grant date. We record compensation cost related to unvested equity awards by recognizing, on a straight-line basis, the unamortized grant date fair value over the remaining service period of each award. In accordance with Accounting Standards Updates (“ASU”) 2016-09, excess tax benefits for share-based award activity are reflected in the Consolidated Statement of Income as a component of the provision for income taxes. Excess tax benefits are realized benefits from tax deductions for exercised awards in excess of the deferred tax asset attributable to stock-based compensation costs for such awards. We did not capitalize any stock-based compensation costs as part of an asset. We estimate forfeiture rates based on our historical experience.

We grant timed-based and performance-based restricted stock units as a component of executive and key employee compensation. These restricted stock units are either time vested or vest following the third fiscal year from the date of grant and some of these grants are subject to cumulative diluted earnings per share growth targets over the eligible period. Compensation cost ultimately recognized for these restricted stock units will equal the grant-date fair market value of the unit that coincides with the actual outcome of the performance conditions. On an interim basis, we record compensation cost based on the expected level of achievement of the performance conditions.

Stock options vest either immediately or over a period of up to five years using a straight-line basis, and expire either five years or ten years from the date of grant. The expense relating to options is recognized on a straight-line basis over the requisite service period for the entire award.

See Note 6 to our Consolidated Financial Statements for further disclosure regarding our stock-based compensation.

Post-retirement Health Care Plans

The Company has a defined benefit post-retirement health care plan which provides long-term care insurance benefits, medical and dental insurance benefits, and medical premium reimbursement benefits to eligible retired corporate officers and their eligible spouses.

For accounting purposes, the defined benefit post-retirement health care plan requires assumptions to estimate the projected and accumulated benefit obligations, including the following variables: discount rate; certain employee-related factors, such as retirement age and mortality; and health care cost trend rates. These and other assumptions affect the annual expense and obligations recognized for the underlying plans. Our assumptions reflect our historical experiences and management's best judgment regarding future expectations.

Increasing the assumed health care cost trend rate by one percentage point would increase the accumulated post-retirement benefit obligation and the annual net periodic post-retirement benefit cost by $0.2 million. A one percentage point decrease in the healthcare cost trend would decrease the accumulated post-retirement benefit obligation and the annual net periodic post-retirement benefit cost by $0.2 million.

Recently Issued Accounting Pronouncements

In the normal course of business, management evaluates all new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") to determine the potential impact they may have on our consolidated financial statements. For a discussion of the newly issued accounting pronouncements see "Recently Issued Accounting Pronouncements" under Note 1 to the Consolidated Financial Statements included in Item 8 of Part II of this report.

RESULTS OF OPERATIONS

The following table sets forth, for fiscal years 2021 and 2020, the components of our Consolidated Statements of Income.

	FY 2021	FY 2020
As a Percentage of Total Revenue:		
Service Revenue	58.4%	53.7%
Distribution Sales	41.6%	46.3%
Total Revenue	100.0%	100.0%
Gross Profit Percentage:		
Service Gross Profit	30.3%	25.3%
Distribution Gross Profit	21.4%	23.7%
Total Gross Profit	26.6%	24.5%
Selling, Marketing and Warehouse Expenses	10.2%	10.4%
General and Administrative Expenses	10.0%	7.9%
Total Operating Expenses	20.2%	18.3%
Operating Income	6.4%	6.3%
Interest and Other Expenses, net	0.6%	0.7%
Income Before Provision for Income Taxes	5.8%	5.6%
Provision for Income Taxes	1.3%	0.9%
Net Income	4.5%	4.7%

Fiscal Year Ended March 27, 2021 Compared to Fiscal Year Ended March 28, 2020 (dollars in thousands):

Revenue:

	For the Fiscal Years Ended		Change	
	March 27, 2021	March 28, 2020	$	%
Revenue:				
Service	$101,274	$ 93,003	$ 8,271	8.9%
Distribution	72,061	80,096	(8,035)	(10.0)%
Total	$173,335	$173,099	$ 236	0.1%

Total revenue was $173.3 million in fiscal year 2021 compared to $173.1 million in fiscal year 2020, an increase of $0.2 million or 0.1%.

Service revenue, which accounted for 58.4% and 53.7% of our total revenue in fiscal years 2021 and 2020, respectively, increased $8.3 million, or 8.9% from fiscal year 2020 to fiscal year 2021. This year-over-year growth includes a combination of organic and acquisition-related revenue growth. This year-over-year increase reflected new life science business and, combined with $5.2 million of incremental revenue from pipettes.com and BioTek, more than offset reduced demand from other markets caused primarily by the COVID-19 pandemic. Excluding acquired revenue of $5.2 million, the Service segment organic revenue increased by 3.3%.

Our fiscal years 2021 and 2020 Service revenue growth in relation to prior fiscal year quarter comparisons, was as follows:

	FY 2021				FY 2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Service Revenue Growth	15.8%	12.2%	4.5%	2.5%	2.9%	7.8%	18.1%	15.9%

Within any year, while we add new customers, we also have customers from the prior year whose service orders may not repeat for any number of factors. Among those factors are variations in the timing of periodic calibrations and other services, customer capital expenditures and customer outsourcing decisions. Because the timing of Service segment orders can vary on a quarter-to-quarter basis, we believe a trailing twelve-month trend provides a better indication of the progress of this segment. The growth in fiscal year 2021 and fiscal year 2020 reflected both organic growth and acquisitions. The growth in Service segment revenue during the third and fourth quarters of fiscal year 2021 includes revenue from Bio Tek and pipettes.com. The growth in Service segment revenue during the first and second quarters of fiscal year 2021 and the fourth quarter of fiscal year 2020 includes revenue from the pipettes.com acquisition.

The following table presents the trailing twelve-month Service segment revenue for each quarter in fiscal years 2021 and 2020 as well as the trailing twelve-month revenue growth as a comparison to that of the prior fiscal year period:

	FY 2021				FY 2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Trailing Twelve-Month:								
Service Revenue	$101,274	$97,225	$94,624	$93,572	$93,003	$92,309	$90,714	$87,114
Service Revenue Growth	8.9%	5.4%	4.3%	7.4%	10.7%	13.0%	13.5%	11.3%

Our strategy has been to focus our investments in the core electrical, temperature, pressure, physical/dimensional and radio frequency/microwave calibration disciplines. We expect to subcontract approximately 13% to 15% of our Service revenue to third-party vendors for calibration beyond our chosen scope of capabilities. We continually evaluate our outsourcing needs and make capital investments, as deemed necessary, to add more in-house capabilities and reduce the need for third-party vendors. Capability expansion through business acquisitions is another way that we seek to reduce the need for outsourcing. The following table presents the source of our Service revenue and the percentage of Service revenue derived from each source for each quarter during fiscal years 2021 and 2020:

	FY 2021				FY 2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
In-House	83.6%	83.1%	83.7%	82.9%	84.9%	82.9%	82.9%	83.3%
Outsourced	14.9%	15.3%	14.7%	15.6%	13.5%	15.6%	15.6%	15.1%
Freight Billed to Customers	1.5%	1.6%	1.6%	1.5%	1.6%	1.5%	1.5%	1.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Our Distribution sales accounted for 41.6% and 46.3% of our total revenue in fiscal years 2021 and 2020, respectively. Distribution sales decreased $8.0 million, or 10.0% in fiscal year 2021 compared to fiscal year 2020. Fiscal year 2021 results were impacted by the COVID-19 pandemic, with reduced demand from oil and gas related businesses and most other industrial manufacturing sectors. However, rental revenue increased by 1.6% to $5.1 million in fiscal year 2021 compared to fiscal year 2020. The change in fiscal year 2021 versus fiscal year 2020 and the increase in fiscal year 2020 versus fiscal year 2019 reflected both organic and acquisition revenue. Our fiscal years 2021 and 2020 Distribution sales (decline) growth in relation to prior fiscal year quarter comparisons were as follows:

	FY 2021				FY 2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Distribution Sales (Decline) Growth	(4.6%)	(8.6%)	(6.6%)	(20.3%)	2.9%	3.5%	(3.8%)	15.4%

Distribution sales orders include orders for instruments that we routinely stock in our inventory, customized products, and other products ordered less frequently, which we do not stock. Pending product shipments are primarily backorders, but also include products that are requested to be calibrated in our service centers prior to shipment, orders required by the customer to be shipped complete or at a future date, and other orders awaiting final credit or management review prior to shipment. Our total pending product shipments increased $2.0 million, or 45.2%, at the end of fiscal year 2021 compared to the end of fiscal year 2020. Backorders at the end of fiscal year 2021 were $4.9 million, compared to $2.9 million at the end of fiscal year 2020. The year-over-year increase in pending product shipments and backorders was a result of the COVID-19 pandemic and its disruption to the supply of products. The following table presents the percentage of total pending product shipments that were backorders at the end of each quarter in fiscal years 2021 and 2020 and our historical trend of total pending product shipments:

	FY 2021				FY 2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total Pending Product Shipments	$6,287	$5,533	$4,251	$3,890	$4,330	$3,743	$4,025	$4,115
% of Pending Product Shipments that were Backorders	77.6%	79.3%	76.6%	75.8%	66.5%	77.6%	71.7%	77.2%

Gross Profit:

	For the Fiscal Years Ended		Change	
	March 27, 2021	March 28, 2020	$	%
Gross Profit:				
Service	$30,695	$23,486	$ 7,209	30.7%
Distribution	15,423	18,992	(3,569)	(18.8)%
Total	$46,118	$42,478	$ 3,640	8.6%

Total gross profit in fiscal year 2021 was $46.1 million compared to $42.5 million in fiscal year 2020, an increase of $3.6 million or 8.6%. As a percentage of total revenue, total gross margin was 26.6% in fiscal year 2021 compared to 24.5% in fiscal year 2020.

Service gross profit increased $7.2 million, or 30.7%, from fiscal year 2020 to fiscal year 2021. Our annual and quarterly Service segment gross margins are a function of several factors. Our organic Service revenue growth provides some incremental gross margin growth by leveraging certain fixed costs of this segment. The mix of services provided to customers may also affect gross margins in any given period. Annual Service gross margin increased by 500 basis points from fiscal year 2020 to fiscal year 2021. This increase in service gross margin in fiscal year 2021 was primarily due to ongoing productivity improvements, operating leverage from organic growth, strategic pricing and accretive margins from the pipettes.com and Bio Tek acquisitions.

The following table presents the quarterly historical trend of our Service gross margin as a percent of Service revenue:

	FY 2021				FY 2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Service Gross Margin	33.9%	27.9%	32.2%	26.4%	28.9%	22.0%	25.6%	24.0%

Our Distribution gross margin includes net sales less the direct cost of inventory sold and the direct costs of equipment rental revenues, primarily depreciation expense for the fixed assets in our rental equipment pool, as well as the impact of rebates and cooperative advertising income we receive from vendors, freight billed to customers, freight expenses and direct shipping costs. During fiscal year 2021, we saw a number of our vendors significantly reduce the rebates offered to us as they implemented cost cutting measures in response to the COVID-19 pandemic. We recorded vendor rebates of $0.7 million and $1.6 million in fiscal years 2021 and 2020, respectively, as a reduction of cost of Distribution sales. In general, our Distribution gross margin can vary based upon the mix of products sold, price discounting, the timing of periodic vendor rebates offered and cooperative advertising programs from suppliers.

The following table reflects the quarterly historical trend of our Distribution gross margin as a percent of Distribution sales:

	FY 2021				FY 2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Distribution Gross Margin	21.0%	22.5%	21.1%	21.0%	23.2%	24.0%	24.3%	23.4%

Annual Distribution segment gross margin decreased 230 basis points in fiscal year 2021 compared to fiscal year 2020. The decrease in segment gross margin was primarily due to reduced cooperative advertising and rebate programs as certain vendors reduced these programs to lower their costs in response to the COVID-19 pandemic.

Operating Expenses:

	For the Fiscal Years Ended		Change	
	March 27, 2021	March 28, 2020	$	%
Operating Expenses:				
Selling, Marketing and Warehouse	$17,743	$17,985	$ (242)	(1.3%)
General and Administrative	17,302	13,643	3,659	26.8%
Total	$35,045	$31,628	$3,417	10.8%

Total operating expenses were $35.0 million in fiscal year 2021 compared to $31.6 million in fiscal year 2020. This represented an increase of $3.4 million, or 10.8%, compared to fiscal year 2020. As a percentage of total revenue, operating expenses increased 190 basis points from 18.3% in fiscal year 2020 to 20.2% in fiscal year 2021. Selling, marketing and warehouse expenses decreases were due to reduced commissions and incentives as a result of the COVID-19 pandemic. The year-over-year increase in General and Administrative expenses includes incremental expenses related to the acquisition of pipettes.com and BioTek and increased expenses related to our continued investment in technology and operational infrastructure.

Provision for Income Taxes:

	For the Fiscal Years Ended		Change	
	March 27, 2021	March 28, 2020	$	%
Provision for Income Taxes	$2,191	$1,663	$528	31.7%

Our effective tax rates for fiscal years 2021 and 2020 were 21.9% and 17.1%, respectively. The increase in tax rate is due to the lower discrete tax benefits from share-based compensation activity. Our provision for income taxes is affected by discrete items that may occur in any given period but are not consistent from year to year. The discrete benefits related to share-based compensation activity in fiscal years 2021 and 2020 were $0.3 million and $0.9 million, respectively. We continue to evaluate our tax provision on a quarterly basis and adjust, as deemed necessary, our effective tax rate given changes in facts and circumstances expected in the future.

We expect to receive certain federal, state and Canadian tax credits in future years. We also expect to receive discrete tax benefits related to share-based compensation awards in fiscal year 2022. As such, we expect our effective tax rate in fiscal year 2022 to be between 20.0% and 22.0%.

Net Income:

	For the Fiscal Years Ended		Change	
	March 27, 2021	March 28, 2020	$	%
Net Income	$7,791	$8,067	$(276)	(3.4%)

Net income for fiscal year 2021 decreased by $0.3 million or 3.4% compared to fiscal year 2020. As a percentage of revenue, net income was 4.5% in fiscal year 2021, down from 4.7% in fiscal year 2020. This year-over-year change reflects higher operating income discussed above offset by a higher effective tax rate.

Adjusted EBITDA:

In addition to reporting net income, a GAAP measure, we present Adjusted EBITDA (earnings before interest, income taxes, depreciation and amortization, non-cash stock compensation expense, non-cash loss on sale of building, and restructuring expense), which is a non-GAAP measure. Our management believes Adjusted EBITDA is an important measure of our operating performance because it allows management, investors and others to evaluate and compare the performance of our core operations from period to period by removing the impact of the capital structure (interest), tangible and intangible asset base (depreciation and amortization), taxes, stock-based compensation expense and other items, which is not always commensurate with the reporting period in which it is included. As such, our management uses Adjusted EBITDA as a measure of performance when evaluating our business segments and as a basis for planning and forecasting. Adjusted EBITDA is also commonly used by rating agencies, lenders and other parties to evaluate our credit worthiness.

Adjusted EBITDA is not a measure of financial performance under GAAP and is not calculated through the application of GAAP. As such, it should not be considered as a substitute or alternative for the GAAP measure of net income and, therefore, should not be used in isolation of, rather in conjunction with, the GAAP measure. Adjusted EBITDA, as presented, may produce results that vary from the GAAP measure and may not be comparable to a similarly defined non-GAAP measure used by other companies.

	For the Fiscal Years Ended	
	March 27, 2021	**March 28, 2020**
Net Income $	$ 7,791	$ 8,067
+ Interest Expense	850	934
+ Other Expense	241	186
+ Tax Provision	2,191	1,663
Operating Income	11,073	10,850
+ Depreciation & Amortization	7,580	6,658
+ Restructuring Expense	650	—
+ Other (Expense) Income	(241)	15
+ Noncash Stock Compensation	1,513	884
Adjusted EBITDA	$20,575	$18,407

During fiscal year 2021, Adjusted EBITDA was $20.6 million, an increase of $2.2 million or 11.8% compared to fiscal year 2020. As a percentage of revenue, Adjusted EBITDA was 11.9% during fiscal year 2021 versus 10.6% during fiscal year 2020, a 110 basis point increase. The increase in Adjusted EBITDA during fiscal year 2021 is primarily driven by the increase in operating income, depreciation and amortization expense and noncash stock compensation expense.

LIQUIDITY AND CAPITAL RESOURCES

We expect that foreseeable liquidity and capital resource requirements will be met through anticipated cash flows from operations and borrowings from our Revolving Credit Facility (as defined below).

On May 18, 2020, we entered into an amendment ("Amendment Two") to our Amended and Restated Credit Agreement with Manufacturers and Traders Trust Company, as previously amended pursuant to an amendment dated as of December 10, 2018 (together, the "Credit Agreement"). Amendment Two extended the term of our $30.0 million revolving credit facility (the "Revolving Credit Facility") to October 20, 2022 and increased the revolving credit commitment to $40.0 million.

Amendment Two modified the definition of applicable rate used to determine interest charges on outstanding and unused borrowings under the Revolving Credit Facility and it amended the definition of permitted acquisitions to amend borrowings available under the Revolving Credit Facility for acquisitions. In addition, Amendment Two amended the definition of restricted payments to exclude amounts up to $2.5 million during each fiscal year used to pay certain employee tax obligations related to stock-based payment and stock option activity, and modified certain restrictions to our ability to repurchase our shares and pay dividends. Amendment Two modified the leverage ratio and fixed charge coverage ratio covenants with which we are required to comply. Amendment Two also established a LIBOR floor of 1% and included a mechanism for adoption of a different benchmark rate when LIBOR is discontinued. During the third quarter of fiscal year 2021, Manufacturers and Traders Trust Company eliminated the prior requirement included in Amendment Two that limited capital expenditures to $5.5 million for the fiscal year ending March 27, 2021. During the fourth quarter of fiscal year 2021, Manufacturers and Traders Trust Company eliminated the prior requirement included in Amendment Two that limited restricted payments up to $2.5 million to pay certain tax obligations associated with share-based payment and stock option activity for the fiscal year ending March 27, 2021.

On December 10, 2018, we entered into an Amended and Restated Credit Agreement Amendment 1 (the “2018 Agreement”) that provides for the 2018 Term Loan in the amount of $15.0 million, which replaced the previous 2017 Term Loan. As of March 27, 2021, $10.6 million was outstanding on the 2018 Term Loan, of which $2.0 million was included in current liabilities on the Consolidated Balance Sheets with the remainder included in long-term debt. The 2018 Term Loan requires total repayments (principal plus interest) of $0.2 million per month through December 2025.

Principal payments relating to the 2018 Term Loan will be $2.1 million in fiscal year 2022, $2.2 million in fiscal year 2023, $2.2 million in fiscal year 2024, $2.3 million in fiscal year 2025 and $1.8 million in fiscal year 2026.

As of March 27, 2021, $40.0 million was available under the Revolving Credit Facility, of which $8.9 million was outstanding and included in long-term debt on the Consolidated Balance Sheets.

Under the Credit Agreement, borrowings that may be used for business acquisitions are limited to $20.0 million per fiscal year, and during a portion of fiscal year 2021 were limited to $5.5 million. During fiscal year 2021, $3.6 million of borrowings was used for business acquisitions. During fiscal year 2020, $13.8 million was used for business acquisitions, including holdback payments.

The allowable leverage ratio under the Credit Agreement for the first, second, third and fourth fiscal quarter of fiscal year 2021, and the first quarter of fiscal year 2022 is a maximum multiple of 3.0, 5.0, 5.5, 7.0 and 4.0, respectively, of total debt outstanding compared to EBITDA and non-cash stock-based compensation expense for the preceding four consecutive fiscal quarters. After the first quarter of fiscal 2022, the allowable leverage ratio is a maximum multiple of 3.0. The Credit Agreement provides that the trailing twelve-month pro forma EBITDA of an acquired business is included in the allowable leverage calculation.

The Credit Agreement has certain covenants with which we must comply, including a fixed charge ratio covenant and a leverage ratio covenant. We were in compliance with all loan covenants and requirements during fiscal years 2021 and 2020. Our leverage ratio, as defined in the Credit Agreement, was 0.94 at March 27, 2021 compared with 1.53 at March 28, 2020.

Interest on the Revolving Credit Facility continues to accrue, at our election, at either the variable one-month LIBOR (subject to a 1% floor) or a fixed rate for a designated period at the LIBOR corresponding to such period, in each case, plus a margin. Interest on outstanding borrowings of the 2018 Term Loan accrues at a fixed rate of 4.15% over the term of the loan with principal and interest payments made monthly. Unused fees accrue based on the average daily amount of unused credit available under the Credit Agreement. Interest rate margins and unused fees are determined on a quarterly basis based upon our calculated leverage ratio, as defined in the Credit Agreement.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (“CARES”) Act was enacted. The CARES Act included a provision that allows the Company to defer the employer portion of social security payroll tax payments that would have been paid between the enactment date and December 31, 2020, with 50% payable by December 31, 2021 and 50% payable by December 31, 2022. During fiscal year 2021, the Company deferred $2.0 million of employer social security payroll taxes, of which $1.0 million is recorded in accrued compensation and other liabilities and $1.0 million is recorded in other liabilities on the Consolidated Balance Sheets.

Cash Flows

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

	For the Fiscal Years Ended	
	March 27, 2021	March 28, 2020
Cash Provided by (Used in):		
Operating Activities	$ 23,639	$ 11,561
Investing Activities	$(10,151)	$(20,242)
Financing Activities	$(12,655)	$ 8,247

Operating Activities

Net cash provided by operating activities was $23.6 million during fiscal year 2021 compared to $11.6 million during fiscal year 2020 primarily due to changes in net working capital (defined as current assets less current liabilities). The significant changes in net working capital were:

- Cash: Cash increased by $0.1 million during fiscal year 2021. The increase was primarily due to the timing of payments towards our long-term debt.

- Receivables: Accounts receivable increased by a net amount of $3.0 million during fiscal year 2021, inclusive of $0.4 million of accounts receivable acquired as part of the BioTek acquisition completed during the period. Accounts receivable increased by a net amount of $3.5 million during fiscal year 2020, including $0.8 million of accounts receivable acquired as part of the pipettes.com acquisition completed within the period. The year-over-year change reflects the timing of collections. The following table illustrates our days sales outstanding as of March 27, 2021 and March 28, 2020:

	For the Fiscal Years Ended	
	March 27, 2021	March 28, 2020
Net Sales, for the last two fiscal months	$36,536	$34,241
Accounts Receivable, net	$33,950	$30,952
Days Sales Outstanding	56	54

- Inventory: Our inventory strategy includes making appropriate large quantity, high dollar purchases with key manufacturers for various reasons, including maximizing on-hand availability of key products, expanding the number of SKUs stocked in anticipation of customer demand, reducing backorders for products with long lead times and optimizing vendor purchase and sales volume discounts. As a result, inventory levels may vary from quarter-to-quarter based on the timing of these large orders in relation to our quarter end. Our inventory balance decreased $2.5 million during fiscal year 2021. Our inventory balance decreased $0.1 million during fiscal year 2020, including $0.1 million of inventory acquired from the pipettes.com acquisition completed within the period. The year-over-year change is a result of lower distribution sales as a result of lower demand due to COVID-19.

- Accounts Payable: Changes in accounts payable may or may not correlate with changes in inventory balances at any given quarter end due to the timing of vendor payments for inventory, as well as the timing of payments for outsourced Service vendors and capital expenditures. Accounts payable increased by $0.3 million during fiscal year 2021. Accounts payable decreased by $2.6 million during fiscal year 2020. The variance is largely due to the timing of inventory purchases and other payments in the respective periods.

- Accrued Compensation and Other Current Liabilities: Accrued compensation and other current liabilities include, among other things, amounts paid to employees for non-equity performance-based compensation. At the end of any particular period, the amounts accrued for such compensation may vary due to many factors including, but not limited to, changes in expected performance levels, the performance measurement period, and the timing of payments to employees. During fiscal year 2021, accrued compensation and other liabilities increased by $3.5 million, due primarily to increased accrued incentives and payroll related expense and $1.0 million of deferred employer portion of social security payroll tax payments as part of the CARES Act. During fiscal year 2020, accrued compensation and other liabilities increased by $1.5 million, due primarily to the adoption of the new lease accounting standard.

- Income Taxes Payable: In any given period, net working capital may be affected by the timing and amount of income tax payments. During fiscal year 2021, income taxes payable increased by $0.3 million while during fiscal year 2020, income taxes payable decreased by $0.1 million. The year-over-year difference is due to timing of income tax payments.

Investing Activities

During fiscal year 2021, we invested $6.6 million in capital expenditures that was used primarily for customer-driven expansion of Service segment capabilities and our rental business. During fiscal year 2020, we invested $6.6 million in capital expenditures that was used primarily for technology infrastructure to drive operational excellence, fund organic growth opportunities within both operating segments and to purchase new equipment to expand the number and type of assets available to rent. The purchase of assets from GRS during fiscal year 2020 is included in our capital expenditures above.

During fiscal year 2021, we used $3.6 million for business acquisitions. During fiscal year 2020, we used $13.0 million for business acquisitions.

During fiscal year 2021, no contingent consideration or other holdback amounts were paid related to a business acquisition. During fiscal year 2020, we used $0.9 million for holdback payments related to a business acquisition.

Financing Activities

During fiscal year 2021, $1.2 million in cash was generated from the issuance of our common stock. In addition, we repaid $8.8 million of our Revolving Credit Facility, we used $2.0 million for scheduled repayments of our term loan, and used $3.0 million for the "net" award of certain share awards to cover tax-withholding obligations for share award activity in the period which are shown as a repurchase of shares of our common stock. During fiscal year 2020, we received $11.2 million from our Revolving Credit Facility and $1.7 million in cash was generated from the issuance of our common stock. We used $1.9 million for scheduled repayments of our term loan and used $2.8 million for the "net" award of certain share awards to cover tax-withholding obligations for share award activity in the period which are shown as a repurchase of shares of our common stock.

Recent Events

Effective April 29, 2021, Transcat acquired substantially all of the assets of Upstate Metrology Inc. ("Upstate Metrology"), a New York based provider of calibration services. This transaction aligned with a key component of our acquisition strategy of targeting businesses that expand the depth and breadth of the Company's service capabilities. The total purchase price paid for the assets of Upstate Metrology was approximately $0.9 million.

OUTLOOK

We are proud of the performance and dedication of the entire Transcat team in the fourth quarter and throughout fiscal 2021 as we navigated the most challenging operating environment in the history of our company. We enter fiscal 2022 with a strong balance sheet, what we believe are sustainable Service segment gross margins and an active M&A pipeline. We are optimistic that our disciplined focus on highly-regulated end markets and our new customer pipeline positions us well for continued strong organic growth.

For the first quarter of fiscal 2022, we expect Service organic growth to be similar to what we achieved in the fourth quarter of fiscal 2021. We expect improvement in Service gross margins, but not to the same degree we experienced in fiscal 2021, largely due to more difficult technician productivity comparisons and the recent anniversary of our acquisition of pipettes.com which occurred in February 2020. Distribution is expected to achieve double-digit growth in the first quarter on modestly improving trends and a prior-year comparison that includes low levels of demand due to the onset of the COVID-19 pandemic. Total operating expenses are expected to be similar to the trailing fourth quarter of fiscal year 2021.

We expect to receive certain federal, state and Canadian tax credits in future years. We also expect to receive discrete tax benefits related to share-based compensation awards in fiscal year 2022. As such, we expect our effective tax rate in fiscal year 2022 to be between 20.0% and 22.0%.

The Company anticipates total capital expenditures to be approximately $7.5 million to $8.5 million in fiscal year 2022, with the majority of the capital expenditures planned for growth-oriented opportunities within both of its operating segments, and for rental pool assets.

ITEM 7A. 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 approximately $0.1 million assuming our average borrowing levels remained constant on our variable rate Revolving Credit Facility. As of March 27, 2021, $40.0 million was available under our Revolving Credit Facility, of which $8.9 million was outstanding and included in long-term debt on the Consolidated Balance Sheets. As described above under "Liquidity and Capital Resources," we also have a $15.0 million (original principal) term loan. As of March 27, 2021, $10.6 million was outstanding on the term loan and was included in long-term debt and current portion of long-term debt on the Consolidated Balance Sheets. The term loan requires total principal and interest repayments of $0.2 million per month through December 2025.

At our option, we borrow from our Revolving Credit Facility at the variable one-month LIBOR, subject to the 1% floor or at a fixed rate for a designated period at the LIBOR corresponding to such period, in each case, plus a margin. Our interest rate margin is determined on a quarterly basis based upon our calculated leverage ratio. Our interest rate during fiscal year 2021 for our Revolving Credit Facility ranged from 1.4% to 2.7%. Interest on outstanding borrowings of the 2018 Term Loan accrues at a fixed rate of 4.15% over the term of the loan. On March 27, 2021, we had no hedging arrangements in place to limit our exposure to upward movements in interest rates.

FOREIGN CURRENCY

Approximately 93% of our total revenues for fiscal years 2021 and 2020 were denominated in U.S. dollars, with the remainder denominated in Canadian dollars. A 10% change in the value of the Canadian dollar to the U.S. dollar would impact our revenue by less than 1%. Since the onset of the COVID-19 pandemic in North America, the Canadian dollar has weakened compared to the U.S. dollar. We monitor the relationship between the U.S. and Canadian currencies on a monthly basis and adjust sales prices for products and services sold in Canadian dollars as we believe to be appropriate, including in response to the COVID-19 pandemic.

We continually utilize short-term foreign exchange forward contracts to reduce the risk that future earnings would be adversely affected by changes in currency exchange rates. We do not apply hedge accounting and therefore the net change in the fair value of the contracts, which totaled a net loss of less than $0.1 million in each of fiscal years 2021 and 2020, was recognized as a component of other expense in the Consolidated Statements of Income. The change in the fair value of the contracts is offset by the change in fair value on the underlying receivables denominated in Canadian dollars being hedged. On March 27, 2021, we had a foreign exchange contract, which matured in April 2021, outstanding in the notional amount of $3.9 million. The foreign exchange contract was renewed in April 2021 and continues to be in place. We do not use hedging arrangements for speculative purposes.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Transcat, Inc. (the "Company") is responsible for establishing and maintaining an adequate system of internal control over financial reporting. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time.

Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as of March 27, 2021.

The effectiveness of the Company's internal control over financial reporting has been audited by Freed Maxick CPAs, P.C. an independent registered public accounting firm, as stated in their report which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinions on the Financial Statements and Internal Control Over Financial Reporting
We have audited the accompanying consolidated balance sheets of Transcat, Inc. and its subsidiaries (the Company) as of March 27, 2021 and March 28, 2020, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended March 27, 2021 and March 28, 2020, and the related notes to the consolidated financial statements (collectively, the financial statements). We also have audited the Company's internal control over financial reporting as of March 27, 2021, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 27, 2021 and March 28, 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 27, 2021, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

Basis for Opinions
The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the Annual report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

BioTek Services, Inc. Purchase Price Allocation

Critical Audit Matter Description

As discussed in Notes 1 and 9 to the consolidated financial statements, effective December 16, 2020, the Company acquired substantially all of the assets of BioTek Services, Inc. ("BioTek"). The total purchase price paid for the assets of BioTek was approximately $3.5 million. The Company applied the acquisition method of accounting for the acquisition. Under this method, identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair value. The Company used a valuation hierarchy, and utilized an independent third-party valuation specialist to determine the fair values used in this allocation. Intangible assets and goodwill represented an allocation of purchase price to identifiable intangible assets of the acquired business in the amount of $2.0 million and $1.1 million, respectively.

The Company's determination of the fair value used for the allocation of the purchase price is based upon assumptions of the future performance of BioTek and includes work performed by a third-party valuation specialist. Due to the subjectivity involved in estimating the fair values and ultimate allocation of purchase price, we identified the fair value estimates for purchase price allocation of BioTek's intangible assets as a critical audit matter, which required a higher degree of auditor judgement as well as the use of professionals with specialized skill and knowledge.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the estimation of fair value associated with the purchase price allocation of the BioTek acquisition included the following, among others:

- We obtained an understanding of the process and assumptions used by management to develop the estimate of the purchase price allocation.
- We obtained an understanding of management's controls relating to the purchase price allocation and tested the operating effectiveness of the controls, as necessary.
- We engaged an internal valuation specialist to test certain assumptions and approaches used.
- We tested cut-off of working capital at the acquisition date for any impact to the fair value assigned to the identifiable tangible and intangible assets acquired or liabilities assumed.
- We tested management's allocation, including testing of the completeness and accuracy of source information used, mathematical accuracy of management's calculations, and evaluated reasonableness and consistency of methodology and assumption.

/s/ Freed Maxick CPAs, P.C.

We have served as the Company's auditor since 2012.

Rochester, New York
June 8, 2021

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

	For the Fiscal Years Ended March 27, 2021	For the Fiscal Years Ended March 28, 2020
Service Revenue	$ 101,274	$ 93,003
Distribution Sales	72,061	80,096
Total Revenue	173,335	173,099
Cost of Services Sold	70,579	69,517
Cost of Distribution Sales	56,638	61,104
Total Cost of Revenue	127,217	130,621
Gross Profit	46,118	42,478
Selling, Marketing and Warehouse Expenses	17,743	17,985
General and Administrative Expenses	17,302	13,643
Total Operating Expenses	35,045	31,628
Operating Income	11,073	10,850
Interest and Other Expenses, net	1,091	1,120
Income Before Provision for Income Taxes	9,982	9,730
Provision for Income Taxes	2,191	1,663
Net Income	$ 7,791	$ 8,067
Basic Earnings Per Share	$ 1.05	$ 1.10
Average Shares Outstanding	7,423	7,331
Diluted Earnings Per Share	$ 1.03	$ 1.08
Average Shares Outstanding	7,548	7,487

See accompanying notes to consolidated financial statements.

TRANSCAT, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	For the Fiscal Years Ended	
	March 27, 2021	**March 28, 2020**
Net Income	$ 7,791	$ 8,067
Other Comprehensive Income (Loss):		
Currency Translation Adjustment	662	(277)
Other, net of tax effects of $36 and $42 for the years ended March 27, 2021 and March 28, 2020, respectively	(103)	(122)
Total Other Comprehensive Income (Loss)	559	(399)
Comprehensive Income	$ 8,350	$ 7,668

See accompanying notes to consolidated financial statements.

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

	March 27, 2021	March 28, 2020
ASSETS		
Current Assets:		
Cash	$ 560	$ 499
Accounts Receivable, less allowance for doubtful accounts of $526 and $480 as of March 27, 2021 and March 28, 2020, respectively	33,950	30,952
Other Receivables	428	1,132
Inventory, net	11,636	14,180
Prepaid Expenses and Other Current Assets	2,354	1,697
Total Current Assets	48,928	48,460
Property and Equipment, net	22,203	20,833
Goodwill	43,272	41,540
Intangible Assets, net	7,513	7,977
Right to Use Assets, net	9,392	8,593
Other Assets	808	719
Total Assets	$132,116	$ 128,122
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 12,276	$ 11,947
Accrued Compensation and Other Current Liabilities	10,417	6,907
Income Taxes Payable	382	86
Current Portion of Long-Term Debt	2,067	1,982
Total Current Liabilities	25,142	20,922
Long-Term Debt	17,494	28,362
Deferred Tax Liabilities, net	3,201	3,025
Lease Liabilities	7,958	6,832
Other Liabilities	3,243	1,894
Total Liabilities	57,038	61,035
Shareholders' Equity:		
Common Stock, par value $0.50 per share, 30,000,000 shares authorized; 7,458,251 and 7,381,180 shares issued and outstanding as of March 27, 2021 and March 28, 2020, respectively	3,729	3,691
Capital in Excess of Par Value	19,287	17,929
Accumulated Other Comprehensive Loss	(451)	(1,010)
Retained Earnings	52,513	46,477
Total Shareholders' Equity	75,078	67,087
Total Liabilities and Shareholders' Equity	$132,116	$ 128,122

See accompanying notes to consolidated financial statements.

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

	For the Fiscal Years Ended	
	March 27, 2021	March 28, 2020
Cash Flows from Operating Activities:		
Net Income	$ 7,791	$ 8,067
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Loss on Disposal of Property and Equipment	136	460
Deferred Income Taxes	176	575
Depreciation and Amortization	7,580	6,659
Provision for Accounts Receivable and Inventory Reserves	636	371
Stock-Based Compensation Expense	1,513	884
Changes in Assets and Liabilities, net of acquisitions:		
Accounts Receivable and Other Receivables	(1,796)	(3,303)
Inventory	2,724	875
Prepaid Expenses and Other Current Assets	(725)	(467)
Accounts Payable	329	(2,767)
Accrued Compensation and Other Current Liabilities	4,943	307
Income Taxes Payable	332	(100)
Net Cash Provided by Operating Activities	23,639	11,561
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(6,617)	(6,579)
Proceeds from Sale of Property and Equipment	17	184
Business Acquisitions, net of cash acquired	(3,551)	(12,983)
Payment of Contingent Consideration and Holdbacks Related to Business Acquisitions	—	(864)
Net Cash Used in Investing Activities	(10,151)	(20,242)
Cash Flows from Financing Activities:		
(Repayment of) Proceeds from Revolving Credit Facility, net	(8,801)	11,241
Repayments of Term Loan	(1,982)	(1,899)
Issuance of Common Stock	1,177	1,727
Repurchase of Common Stock	(3,049)	(2,822)
Net Cash (Used In) Provided by Financing Activities	(12,655)	8,247
Effect of Exchange Rate Changes on Cash	(772)	145
Net Increase (Decrease) in Cash	61	(289)
Cash at Beginning of Fiscal Year	499	788
Cash at End of Fiscal Year	$ 560	$ 499
Supplemental Disclosures of Cash Flow Activity:		
Cash paid during the fiscal year for:		
Interest	$ 860	$ 938
Income Taxes	$ 1,759	$ 1,371
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Payment of Contingent Consideration and Holdback Amounts Related to Business Acquisition	$ —	$ 864

See accompanying notes to consolidated financial statements.

TRANSCAT, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In Thousands, Except Per Share Amounts)

	Common Stock Issued $0.50 Par Value		Capital In Excess of	Accumulated Other Comprehensive	Retained	
	Shares	Amount	Par Value	Loss	Earnings	Total
Balance as of March 30, 2019	7,211	$3,605	$16,467	$ (611)	$40,169	$59,630
Issuance of Common Stock	168	85	1,642	—	—	1,727
Repurchase of Common Stock	(118)	(59)	(1,004)	—	(1,759)	(2,822)
Stock-Based Compensation	120	60	824	—	—	884
Other Comprehensive Loss	—	—	—	(399)	—	(399)
Net Income	—	—	—	—	8,067	8,067
Balance as of March 28, 2020	7,381	3,691	17,929	(1,010)	46,477	67,087
Issuance of Common Stock	57	29	1,148	—	—	1,177
Repurchase of Common Stock	(81)	(41)	(1,253)	—	(1,755)	(3,049)
Stock-Based Compensation	101	50	1,463	—	—	1,513
Other Comprehensive Income	—	—	—	559	—	559
Net Income	—	—	—	—	7,791	7,791
Balance as of March 27, 2021	7,458	$3,729	$19,287	$ (451)	$52,513	$75,078

See accompanying notes to consolidated financial statements.

NOTE 1 – GENERAL

Description of Business

Transcat, Inc. ("Transcat" or the "Company") is a leading provider of accredited calibration and laboratory instrument services and a value-added distributor of professional grade handheld test, measurement and control instrumentation. The Company is focused on providing services and products to highly regulated industries, particularly the life science industry, which includes pharmaceutical, biotechnology, medical device and other FDA-regulated businesses. Additional industries served include industrial manufacturing; energy and utilities, including oil and gas and alternative energy; FAA-regulated businesses, including aerospace and defense; and other industries that require accuracy in their processes, confirmation of the capabilities of their equipment, and for which the risk of failure is very costly.

Principles of Consolidation

The consolidated financial statements of Transcat include the accounts of Transcat and the Company's wholly-owned subsidiaries, Transcat Canada Inc., United Scale & Engineering Corporation, WTT Real Estate Acquisition, LLC and Anmar Metrology, Inc. (which merged with and into the Company on March 28, 2020). All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of Transcat's Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States ("GAAP") requires that the Company make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to, allowance for doubtful accounts and returns, inventory reserves, estimated levels of achievement for performance-based restricted stock units, fair value of stock options, depreciable lives of fixed assets, estimated lives of major catalogs and intangible assets, and the valuation of assets acquired and liabilities assumed in business acquisitions. Future events and their effects cannot be predicted with certainty; accordingly, accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the Consolidated Financial Statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. Actual results could differ from those estimates. Such changes and refinements in estimation methodologies are reflected in reported results of operations in the period in which the changes are made and, if material, their effects are disclosed in the Notes to the Consolidated Financial Statements.

Fiscal Year

Transcat operates on a 52/53-week fiscal year, ending the last Saturday in March. In a 52-week fiscal year, each of the four quarters is a 13-week period. In a 53-week fiscal year, the last quarter is a 14-week period. The fiscal years ended March 27, 2021 ("fiscal year 2021") and March 28, 2020 ("fiscal year 2020") both consisted of 52 weeks.

Accounts Receivable

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

Inventory

Inventory consists of products purchased for resale and is valued at the lower of average cost or net realizable value. Costs are determined using the average cost method of inventory valuation. The Company performs physical inventory counts and cycle counts on inventory throughout the year and adjusts the recorded balance to reflect the results. Inventory is reduced by a reserve for items not saleable at or above cost by applying a specific loss factor, based on historical experience, to specific categories of inventory. The Company evaluates the adequacy of the reserve on a quarterly basis. The Company had reserves for inventory losses totaling $0.6 million at March 27, 2021 and $0.5 million at March 28, 2020.

Property and Equipment, Depreciation and Amortization

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

	Years
Machinery, Equipment and Software	2 – 15
Rental Equipment	5 – 8
Furniture and Fixtures	3 – 10
Leasehold Improvements	2 – 10

The Company tests property and equipment for impairment on an annual basis during the fourth quarter of its fiscal year, or immediately if conditions indicate that such impairment could exist. Property and equipment determined to have no value are written off at their then remaining net book value. The Company capitalizes certain costs incurred in the procurement and development of computer software used for internal purposes. Leasehold improvements are amortized under the straight-line method over the estimated useful life or the lease term, whichever is shorter. Maintenance and repairs are expensed as incurred. See Note 2 for further information on property and equipment.

Business Acquisitions

The Company applies the acquisition method of accounting for business acquisitions. Under the acquisition method, identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair value. The Company uses a valuation hierarchy, as further described under Fair Value of Financial Instruments below, to determine the fair values used in this allocation. Historically, we have relied, in part, upon the use of reports from third-party valuation specialists to assist in the estimation of fair values. Purchase price allocations are subject to revision within the measurement period, not to exceed one year from the date of acquisition. Costs to acquire a business may include, but are not limited to, fees for accounting, legal and valuation services, and are expensed as incurred in the Consolidated Statements of Income.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair values of the underlying net assets of an acquired business. The Company tests goodwill for impairment on an annual basis during the fourth quarter of its fiscal year, or immediately if conditions indicate that such impairment could exist. The Company evaluates qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value and whether it is necessary to perform the goodwill impairment process. The Company determined that no impairment was indicated as of March 27, 2021 and March 28, 2020.

Intangible assets, namely customer base and covenants not to compete, represent an allocation of purchase price to identifiable intangible assets of an acquired business. The Company estimates the fair value of its reporting units using the fair market value measurement requirement. Intangible assets are evaluated for impairment when events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. A summary of changes in the Company's goodwill and intangible assets is as follows:

	Goodwill			Intangible Assets		
	Distribution	Service	Total	Distribution	Service	Total
Net Book Value as of March 30, 2019	$ 9,759	$24,786	$34,545	$ 310	$ 4,923	$ 5,233
Additions	1,695	5,580	7,275	1,133	3,397	4,530
Amortization	—	—	—	(146)	(1,619)	(1,765)
Currency Translation Adjustment	—	(280)	(280)	—	(21)	(21)
Net Book Value as of March 28, 2020	11,454	30,086	41,540	1,297	6,680	7,977
Additions	4	1,075	1,079	-	2,030	2,030
Amortization	—	—	—	(377)	(2,161)	(2,538)
Currency Translation Adjustment	—	653	653	—	44	44
Net Book Value as of March 27, 2021	$11,458	$31,814	$43,272	$ 920	$ 6,593	$ 7,513

The intangible assets are being amortized on an accelerated basis over their estimated useful lives of up to 10 years. Amortization expense relating to intangible assets is expected to be $2.3 million in fiscal year 2022, $1.7 million in fiscal year 2023, $1.2 million in fiscal year 2024, $0.9 million in fiscal year 2025 and $0.6 million in fiscal year 2026.

Catalog Costs

Transcat capitalizes the cost of each master catalog mailed and amortizes the cost over the respective catalog's estimated productive life. The Company reviews response results from catalog mailings on a continuous basis, and if warranted, modifies the period over which costs are recognized. The Company amortizes the cost of each Master Catalog over an eighteen-month period and amortizes the cost of each catalog supplement over a three-month period. Total unamortized catalog costs, included as a component of prepaid expenses and other current assets on the Consolidated Balance Sheets, were $0.1 million as of both March 27, 2021 and March 28, 2020.

Deferred Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the consolidated financial statement carrying amounts and the tax bases of its assets and liabilities. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the Consolidated Statements of Income in the period that includes the enactment date. The Company establishes valuation allowances if it believes that it is more-likely-than-not that some or all of its deferred tax assets will not be realized. See Note 4 for further discussion on income taxes.

Fair Value of Financial Instruments

Transcat has determined the fair value of debt and other financial instruments using a valuation hierarchy. The hierarchy, which prioritizes the inputs used in measuring fair value, consists of three levels. Level 1 uses observable inputs such as quoted prices in active markets; Level 2 uses inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, which is defined as unobservable inputs in which little or no market data exists, requires the Company to develop its own assumptions. The carrying amount of debt on the Consolidated Balance Sheets approximates fair value due to variable interest rate pricing on a portion of the debt with the balance bearing an interest rate approximating current market rates, and the carrying amounts for cash, accounts receivable and accounts payable approximate fair value due to their short-term nature. Investment assets, which fund the Company's non-qualified deferred compensation plan, consist of mutual funds and are valued based on Level 1 inputs. At each of March 27, 2021 and March 28, 2020, investment assets totaled $0.4 million and are included as a component of other assets (non-current) on the Consolidated Balance Sheets.

Stock-Based Compensation

The Company measures the cost of services received in exchange for all equity awards granted, including stock options and restricted stock units, based on the fair market value of the award as of the grant date. The Company records compensation cost related to unvested equity awards by recognizing, on a straight-line basis, the unamortized grant date fair value over the remaining service period of each award. Excess tax benefits for share-based award activity are reflected in the Consolidated Statements of Income as a component of the provision for income taxes. Excess tax benefits are realized benefits from tax deductions for exercised awards in excess of the deferred tax asset attributable to stock-based compensation costs for such awards. The Company did not capitalize any stock-based compensation costs as part of an asset. The Company estimates forfeiture rates based on its historical experience. During fiscal years 2021 and 2020, the Company recorded non-cash stock-based compensation cost in the amount of $1.5 million and $0.9 million, respectively, in the Consolidated Statements of Income.

Revenue Recognition

Distribution sales are recorded when an order's title and risk of loss transfers to the customer. The Company recognizes the majority of its Service revenue based upon when the calibration or other activity is performed and then shipped and/or delivered to the customer. The majority of the Company's revenue generating activities have a single performance obligation and are recognized at the point in time when control transfers and/or our obligation has been fulfilled. Some Service revenue is generated from managing customers' calibration programs in which the Company recognizes revenue over time using the output method-time elapsed as this portrays the transfer of control to the customer. Revenue is measured as the amount of consideration it expects to receive in exchange for product shipped or services performed. Sales taxes and other taxes billed and collected from customers are excluded from revenue. The Company generally invoices its customers for freight, shipping, and handling charges. Provisions for customer returns are provided for in the period the related revenue is recorded based upon historical data.

Revenue recognized from prior period performance obligations for fiscal year 2021 was immaterial. As of March 27, 2021, the Company had no unsatisfied performance obligations for contracts with an original expected duration of greater than one year. Pursuant to Topic 606 (defined below), the Company applied the practical expedient with respect to disclosure of the deferral and future expected timing of revenue recognition for transaction price allocated to remaining performance obligations. Deferred revenue, unbilled revenue and deferred contract costs recorded on our Consolidated Balance Sheets as of March 27, 2021 and March 28, 2020 were immaterial. Payment terms are generally 30 to 45 days. See Note 7 for disaggregated revenue information.

Vendor Rebates

Vendor rebates are generally based on specified cumulative levels of purchases and/or incremental distribution sales and are recorded as a reduction of cost of distribution sales. Purchase rebates are calculated and recorded quarterly based upon the volume of purchases with specific vendors during the quarter. Point of sale rebate programs that are based on year-over-year sales performance on a calendar year basis are recorded as earned, on a quarterly basis, based upon the expected level of annual achievement. Point of sale rebate programs that are based on year-over-year sales performance on a quarterly basis are recorded as earned in the respective quarter. The Company recorded vendor rebates of $0.7 million and $1.6 million in fiscal years 2021 and 2020, respectively, as a reduction of cost of distribution sales.

Cooperative Advertising Income

The Company participates in co-op advertising programs with certain of its vendors. The Company records cash consideration received from these vendors for advertising as a reduction of cost of distribution sales. The Company recorded consideration in the amount of $0.6 million and $1.4 million in fiscal years 2021 and 2020, respectively, in connection with these programs.

Advertising Costs

Advertising costs, other than catalog costs, are expensed as they are incurred and are included in Selling, Marketing and Warehouse Expenses in the Consolidated Statements of Income. Advertising costs were approximately $0.9 million and $1.2 million in fiscal years 2021 and 2020, respectively.

Shipping and Handling Costs

Freight expense and direct shipping costs are included in the cost of revenue. These costs totaled approximately $2.5 million and $2.6 million in fiscal years 2021 and 2020, respectively. Direct handling costs, the majority of which represent direct compensation of employees who pick, pack, and prepare merchandise for shipment to customers, are reflected in selling, marketing and warehouse expenses. Direct handling costs were approximately $0.8 million and $0.9 million in fiscal years 2021 and 2020, respectively.

Foreign Currency Translation and Transactions

The accounts of Transcat Canada Inc. are maintained in the local currency and have been translated to U.S. dollars. Accordingly, the amounts representing assets and liabilities have been translated at the period-end rates of exchange, and related revenue and expense accounts have been translated at an average rate of exchange during the period. Gains and losses arising from translation of Transcat Canada Inc.'s financial statements into U.S. dollars are recorded directly to the accumulated other comprehensive loss component of shareholders' equity.

Transcat records foreign currency gains and losses on business transactions denominated in foreign currency. The net foreign currency loss was less than $0.1 million in each of the fiscal years 2021 and 2020. The Company continually utilizes short-term foreign exchange forward contracts to reduce the risk that its earnings would be adversely affected by changes in currency exchange rates. The Company does not apply hedge accounting and therefore the net change in the fair value of the contracts, which totaled a net loss of less than $0.1 million in each of fiscal year 2021 and 2020, was recognized as a component of Other Expenses in the Consolidated Statements of Income. The change in the fair value of the contracts is offset by the change in fair value on the underlying accounts receivables denominated in Canadian dollars being hedged. On March 27, 2021, the Company had a foreign exchange contract, which matured in April 2021, outstanding in the notional amount of $3.9 million. This contract was subsequently renewed and remains in place. The Company does not use hedging arrangements for speculative purposes.

Other Comprehensive Income

Comprehensive income is composed of currency translation adjustments, unrecognized prior service costs, net of tax, and unrealized gains or losses on other assets, net of tax.

For the Company's Canadian subsidiary, the local currency is Canadian dollars. Assets and liabilities of that subsidiary are translated into United States dollars at the period-end exchange rate or historical rates as appropriate. Consolidated statements of earnings (loss) amounts are translated at average exchange rates for the period. The cumulative translation adjustments resulting from changes in exchange rates are included in the consolidated balance sheets as a component of accumulated other comprehensive loss in shareholders' equity. Transaction gains and losses are included in the Consolidated Statements of Income.

The Company determines the expense and obligations for its post-retirement plans using assumptions related to discount rates, expected long-term rates of return on invested plan assets, and certain other factors. The Company determines the fair value of plan assets and benefit obligations as of the end of each fiscal year. The unrecognized portion of the gain or loss on plan assets is included in the consolidated balance sheets as a component of accumulated other comprehensive loss in shareholders' equity and is recognized into the plans' expense over time. See Note 5 for further discussion on the company's post retirement plan.

The Company has a non-qualified deferred compensation plan for the benefit of certain management employees and non-employee directors. Investment assets, which fund the Company's non-qualified deferred compensation plan, consist of mutual funds. The unrecognized portion of the gain or loss on plan assets is included in the Consolidated Balance Sheets as a component of accumulated other comprehensive loss in shareholders' equity.

At March 27, 2021, accumulated other comprehensive loss consisted of cumulative currency translation gains of $0.1 million, unrecognized prior service costs, net of tax, of $0.5 million and an unrealized gain on other assets, net of tax, of $0.1 million.

At March 28, 2020, accumulated other comprehensive loss consisted of cumulative currency translation losses of $0.6 million, unrecognized prior service costs, net of tax, of $0.3 million and an unrealized gain on other assets, net of tax, of $0.1 million.

Earnings per Share

Basic earnings per share of common stock are computed based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share of common stock reflect the assumed conversion of stock options and unvested restricted stock units using the treasury stock method in periods in which they have a dilutive effect. In computing the per share effect of assumed conversion, proceeds received from the exercise of options and unvested restricted stock units 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 each of fiscal years 2021 and 2020, the net additional common stock equivalents had a $0.02 per share effect on the calculation of dilutive earnings per share. The average shares outstanding used to compute basic and diluted earnings per share are as follows:

	For the Fiscal Years Ended	
	March 27, 2021	March 28, 2020
Average Shares Outstanding – Basic	7,423	7,331
Effect of Dilutive Common Stock Equivalents	125	156
Average Shares Outstanding – Diluted	7,548	7,487
Anti-dilutive Common Stock Equivalents	—	15

Shareholders' Equity

During each of fiscal years 2021 and 2020, the Company repurchased and subsequently retired 0.1 million shares of its common stock. There were no stock option redemptions during either fiscal year 2021 or fiscal year 2020.

COVID-19 Pandemic

The COVID-19 pandemic has had a negative impact on our fiscal year 2021 and fiscal year 2020 operations and financial results, and the full financial impact of the pandemic cannot be reasonably estimated at this time due to uncertainty as to its severity and duration. The Company took actions to manage its resources conservatively to mitigate the negative impact of the pandemic, including aligning variable costs with demand, froze hiring and wages, with the exception of technology personnel, tightly controlled discretionary spending; reduced the CEO's salary and Board of Director cash retainer fees by 20% and reduced other executive team members salaries by 10% during the first and second quarter of fiscal year 2021; and amended our revolving credit facility to provide for, among other things, $10.0 million in additional borrowing capacity and financial covenant modifications.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was enacted. The CARES Act included a provision that allows the Company to defer the employer portion of social security payroll tax payments that would have been paid between the enactment date and December 31, 2020, with 50% payable by December 31, 2021 and 50% payable by December 31, 2022. During fiscal year 2021, the Company deferred $2.0 million of employer social security payroll taxes, of which $1.0 million is recorded in accrued compensation and other current liabilities and $1.0 million is recorded in other liabilities on the Consolidated Balance Sheets.

Recently Issued Accounting Pronouncements

Credit Losses

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326), which significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The ASU replaces the "incurred loss" model with an "expected credit loss" model that requires entities to estimate an expected lifetime credit loss on financial assets, including trade accounts receivable. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. As credit losses from the Company's trade receivables have not historically been significant, the Company anticipates that the adoption of the ASU will not have a material impact on our consolidated financial statements.

Reclassification of Amounts

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

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consists of:

	March 27, 2021	March 28, 2020
Machinery, Equipment and Software	$ 49,782	$ 46,206
Rental Equipment	7,873	7,111
Furniture and Fixtures	2,702	2,668
Leasehold Improvements	4,272	3,051
Total Property and Equipment	64,629	59,036
Less: Accumulated Depreciation and Amortization	(42,426)	(38,203)
Total Property and Equipment, net	$ 22,203	$ 20,833

Total depreciation and amortization expense relating to property and equipment amounted to $5.0 million and $4.8 million in fiscal years 2021 and 2020, respectively.

NOTE 3 – LONG-TERM DEBT

On May 18, 2020, the Company entered into the Amended and Restated Credit Facility Agreement Amendment 2 (“Amendment Two”) with Manufacturers and Traders Trust Company that amended the Company’s Credit Agreement (as amended by Amendment Two, the “Credit Agreement”). Amendment Two extended the term of the revolving credit facility (the “Revolving Credit Facility”) to October 20, 2022 and increased the revolving credit commitment to $40 million.

Amendment Two modified the definition of the applicable rate used to determine interest charges on outstanding and unused borrowings under the Revolving Credit Facility and it amended the definition of permitted acquisitions to amend borrowings available under the Revolving Credit Facility for acquisitions. In addition, Amendment Two amended the definition of restricted payments to exclude amounts up to $2.5 million during each fiscal year used to pay certain employee tax obligations associated with share-based payment and stock option activity, and modified certain restrictions to the Company’s ability to repurchase its shares and pay dividends. Amendment Two modified the leverage ratio and fixed charge coverage ratio covenants with which the Company is required to comply for the fiscal year ending March 27, 2021. Amendment Two also established a London Interbank Offered Rate (“LIBOR”) floor of 1% and included a mechanism for adoption of a different benchmark rate when LIBOR is discontinued. During the third quarter of fiscal year 2021, Manufacturers and Traders Trust Company eliminated the prior requirement included in Amendment Two that limited capital expenditures to $5.5 million for the fiscal year ending March 27, 2021. During the fourth quarter of fiscal year 2021, Manufacturers and Traders Trust Company eliminated the prior requirement included in Amendment Two that limited restricted payments up to $2.5 million to pay certain tax obligations associated with share-based payment and stock option activity for the fiscal year ending March 27, 2021.

On December 10, 2018, the Company entered into an Amended and Restated Credit Agreement Amendment 1 (the “2018 Agreement”). The 2018 Agreement has a term loan (the “2018 Term Loan”) in the amount of $15.0 million. As of March 27, 2021, $10.6 million was outstanding on the 2018 Term Loan, of which $2.1 million was included in current liabilities on the Consolidated Balance Sheets with the remainder included in long-term debt. The 2018 Term Loan requires total repayments (principal plus interest) of $0.2 million per month through December 2025.

Principal payments relating to the 2018 Term Loan will be $2.1 million in fiscal year 2022, $2.2 million in fiscal year 2023, $2.2 million in fiscal year 2024, $2.3 million in fiscal year 2025 and $1.8 million in fiscal year 2026.

As of March 27, 2021, $40.0 million was available under the Revolving Credit Facility, of which $8.9 million was outstanding and included in long-term debt on the Consolidated Balance Sheets.

During fiscal year 2021, $3.6 million of borrowings was used for business acquisitions. During fiscal year 2020, $13.8 million of borrowings was used for business acquisitions, including holdback payments.

The allowable leverage ratio under the Credit Agreement for the first, second, third and fourth fiscal quarter of fiscal year 2021 and the first quarter of fiscal year 2022 is a maximum multiple of 3.0, 5.0, 5.5, 7.0 and 4.0, respectively, of total debt outstanding compared to EBITDA and non-cash stock-based compensation expense for the preceding four consecutive fiscal quarters. After the first quarter of fiscal 2022, the allowable leverage ratio is a maximum multiple of 3.0. The Credit Agreement provides that the trailing twelve-month pro forma EBITDA of an acquired business is included in the allowable leverage calculation.

Interest and Other Costs

Interest on outstanding borrowings under the Revolving Credit Facility accrues, at Transcat's election, at either the variable one-month LIBOR or a fixed rate for a designated period at the LIBOR corresponding to such period, in each case (subject to a 1% floor), plus a margin. Interest on outstanding borrowings under the 2018 Term Loan accrues at a fixed rate of 4.15% over the term of the loan. Unused fees accrue based on the average daily amount of unused credit available on the Revolving Credit Facility. Interest rate margins and unused fees are determined on a quarterly basis based upon the Company's calculated leverage ratio, as defined in the Credit Agreement. The Company's interest rate for the Revolving Credit Facility for fiscal year 2021 ranged from 1.4% to 2.7%.

Covenants

The Credit Agreement has certain covenants with which the Company must comply, including a fixed charge ratio covenant and a leverage ratio covenant. We were in compliance with all loan covenants and requirements during fiscal years 2021 and 2020. Our leverage ratio, as defined in the Credit Agreement, was 0.94 at March 27, 2021, compared with 1.53 at March 28, 2020.

Other Terms

The Company has pledged all of its U.S. tangible and intangible personal property, the equity interests of its U.S.-based subsidiaries, and a majority of the common stock of Transcat Canada Inc. as collateral security for the loans made under the Revolving Credit Facility.

NOTE 4 – INCOME TAXES

While the Tax Cuts and Jobs Act of 2017 provides for a territorial tax system, effective for tax years beginning after December 31, 2017, it includes the Global Intangible Low-Taxed Income ("GILTI") and Foreign Derived Intangible Income ("FDII") provisions. The Company has elected to account for these provisions in the period in which incurred. During fiscal years 2021 and 2020, the Company recorded net income tax benefits of less than $0.1 million each year as a result of these provisions. Foreign subsidiary's undistributed earnings are considered to be permanently reinvested.

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

	FY 2021	FY 2020
United States	$9,187	$8,783
Foreign	795	947
Total	$9,982	$9,730

The provision for income taxes for fiscal years 2021 and 2020 is as follows:

	FY 2021	FY 2020
Current Tax Provision:		
Federal	$1,449	$ 630
State	428	285
Foreign	103	329
	$1,980	$1,244
Deferred Tax (Benefit) Provision:		
Federal	$ 96	$ 371
State	(22)	77
Foreign	137	(29)
	$ 211	$ 419
Provision for Income Taxes	$2,191	$1,663

A reconciliation of the income tax provision computed by applying the statutory U.S. federal income tax rate and the income tax provision reflected in the Consolidated Statements of Income is as follows:

	FY 2021	FY 2020
Federal Income Tax at Statutory Rate	$2,096	$2,044
State Income Taxes, net of federal benefit	282	294
Foreign Taxes and Federal, State and Foreign Tax Credits	9	(97)
Tax Impact of Equity Awards	(274)	(876)
Other, net	78	298
Total	$2,191	$1,663

	March 27, 2021	March 28, 2020
Deferred Tax Assets:		
Accrued Liabilities	$ 354	$ 531
Lease Liabilities	2,439	2,253
Performance-Based Stock Award Grants	439	432
Inventory Reserves	132	105
Non-Qualified Deferred Compensation Plan	104	98
Post-Retirement Health Care Plans	506	385
Stock-Based Compensation	95	70
Deferred Payroll Tax – CARES Act	259	–
Capitalized Inventory Costs	118	126
Other	267	265
Total Deferred Tax Assets	$ 4,713	$ 4,265
Deferred Tax Liabilities:		
Goodwill and Intangible Assets	$ (1,233)	$ (1,162)
Right of Use Assets	(2,408)	(2,198)
Depreciation	(4,230)	(3,858)
Other	(43)	(72)
Total Deferred Tax Liabilities	$ (7,914)	$ (7,290)
Net Deferred Tax Liabilities	$ (3,201)	$ (3,025)

The Company files income tax returns in the U.S. federal jurisdiction, various states and Canada. The Company is no longer subject to examination by U.S. federal income tax authorities for fiscal years 2017 and prior, by state tax authorities for fiscal years 2015 and prior, and by Canadian tax authorities for fiscal years 2014 and prior. There are no income tax years currently under examination by Canadian or state income tax authorities. The fiscal year ended March 31, 2018 is currently under examination by the Internal Revenue Service. A reserve of less than $0.1 million was recorded during the fiscal year ended March 27, 2021 relating to this examination.

During fiscal years 2021 and 2020, there were no uncertain tax positions. No interest or penalties related to uncertain tax positions were recognized in fiscal years 2021 and 2020 or were accrued at March 27, 2021 and March 28, 2020.

The Company's effective tax rate for fiscal years 2021 and 2020 was 21.9% and 17.1%, respectively. The tax rate is affected by recurring items, such as state income taxes and tax credits, which the Company expects to be fairly consistent in the near term. It is also affected by discrete items that may occur in any given year but are not consistent from year to year. The discrete benefits related to share-based compensation awards in each of fiscal years 2021 and 2020 were $0.3 and $0.9 million, respectively.

The Company expects to receive certain federal, state and Canadian tax credits in future years. The Company also expects to receive discrete tax benefits related to share-based compensation awards in fiscal year 2022. As such, it expects its effective tax rate in fiscal year 2022 to be between 20.0% and 22.0%.

NOTE 5 – EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

All of Transcat's U.S. based employees are eligible to participate in a defined contribution plan, the Long-Term Savings and Deferred Profit Sharing Plan (the "Plan"), provided they meet certain qualifications. In response to the COVID-19 pandemic, the Company suspended the employer match to the Plan for the first six months of fiscal year 2021. In the second six months of fiscal year 2021, the Company matched 50% of the first 6% of pay that eligible employees contribute to the Plan. In fiscal year 2020, the Company matched 50% of the first 6% of pay that eligible employees contribute to the Plan.

In the long-term savings portion of the Plan (the "401K Plan"), plan participants are entitled to a distribution of their vested account balance upon termination of employment or retirement. Plan participants are fully vested in their contributions while Company contributions are fully vested after three years of service. The Company's matching contributions to the 401K Plan were approximately $0.4 million and $0.9 million in fiscal years 2021 and 2020, respectively.

In the deferred profit sharing portion of the Plan, Company contributions are made at the discretion of the board of directors. The Company made no profit sharing contributions in fiscal years 2021 and 2020.

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan (the "ESPP") that allows for eligible employees as defined in the ESPP to purchase common shares of the Company through payroll deductions at a price that is 85% of the closing market price on the second last business day of each calendar month (the "Investment Date"). 650,000 shares can be purchased under the ESPP. The difference between the closing market price on the Investment Date and the price paid by employees is recorded as a general and administrative expense in the accompanying Consolidated Statements of Income. The expense related to the ESPP was less than $0.1 million in each of fiscal years 2021 and 2020.

Non-Qualified Deferred Compensation Plan

The Company has available a non-qualified deferred compensation plan (the "NQDC Plan") for directors and officers. Participants are fully vested in their contributions. At its discretion, the Company may elect to match employee contributions, subject to legal limitations in conjunction with the 401K Plan, which fully vest after three years of service. During fiscal years 2021 and 2020, the Company did not match any employee contributions. Participant accounts are adjusted to reflect performance, whether positive or negative, of selected investment options chosen by each participant during the deferral period. In the event of bankruptcy, the assets of the NQDC Plan are available to satisfy the claims of the Company's general creditors. The liability for compensation deferred under the NQDC Plan was $0.4 million as of both March 27, 2021 and March 28, 2020, and is included as a component of other liabilities (non-current) on the Consolidated Balance Sheets.

Post-retirement Health Care Plans

The Company has a defined benefit post-retirement health care plan which provides long-term care insurance benefits, medical and dental insurance benefits and medical premium reimbursement benefits to eligible retired corporate officers and their eligible spouses (the "Officer Plan").

The change in the post-retirement benefit obligation is as follows:

	FY 2021	FY 2020
Post-retirement benefit obligation, at beginning of fiscal year	$ 1,509	$ 1,311
Service cost	84	77
Interest cost	48	48
Benefits paid	(95)	(98)
Actuarial loss	285	171
Post-retirement benefit obligation, at end of fiscal year	1,831	1,509
Fair value of plan assets, at end of fiscal year	–	–
Funded status, at end of fiscal year	$(1,831)	$(1,509)
Accumulated post-retirement benefit obligation, at end of fiscal year	$ 1,831	$ 1,509

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

	FY 2021	FY 2020
Net periodic post-retirement benefit cost:		
Service cost	$ 84	$ 77
Interest cost	48	48
Amortization of prior service cost	1	1
	133	126
Benefit obligations recognized in other comprehensive income:		
Amortization of prior service cost	(1)	(1)
Net gain	233	113
	232	112
Total recognized in net periodic benefit cost and other comprehensive income	$365	$238
Amount recognized in accumulated other comprehensive income, at end of fiscal year:		
Unrecognized prior service cost	$739	$518

The prior service cost is amortized over the average remaining life expectancy of active participants in the Officer Plan. The estimated prior service cost that will be amortized from accumulated other comprehensive income into net periodic post-retirement benefit cost during fiscal year 2021 is less than $0.1 million.

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

	March 27, 2021	March 28, 2020
Weighted average discount rate	3.0%	3.3%
Medical care cost trend rate:		
Trend rate assumed for next year	7.0%	6.8%
Ultimate trend rate	3.8%	3.8%
Year that rate reaches ultimate trend rate	2075	2075
Dental care cost trend rate:		
Trend rate assumed for next year and remaining at that level thereafter	3.0%	3.5%

Benefit payments are funded by the Company as needed. Payments toward the cost of a retiree's medical and dental coverage are initially determined as a percentage of a base coverage plan in the year of retirement and are limited to increase at a rate of no more than 50% of the annual increase in medical and dental costs, as defined in the plan document. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Fiscal Year	Amount
2022	$ 179
2023	160
2024	134
2025	125
2026	91
Thereafter	$1,142

Increasing the assumed health care cost trend rate by one percentage point would increase the accumulated post-retirement benefit obligation and the annual net periodic post-retirement benefit cost by $0.2 million. A one percentage point decrease in the healthcare cost trend would decrease the accumulated post-retirement benefit obligation and the annual net periodic post-retirement benefit cost by $0.2 million.

NOTE 6 – STOCK-BASED COMPENSATION

The Company has a share-based incentive plan (the "2003 Plan") that provides for, among other awards, grants of restricted stock units and stock options to directors, officers and key employees at the fair market value at the date of grant. At March 27, 2021, 0.9 million restricted stock units or stock options were available for future grant under the 2003 Plan.

The Company receives an excess tax benefit related to restricted stock vesting and stock options exercised and redeemed. The discrete benefits related to share-based compensation awards in fiscal years 2021 and 2020 were $0.3 million and $0.9 million, respectively.

Restricted Stock

The Company grants time-based and performance-based restricted stock units as a component of executive and key employee compensation. Expense for restricted stock grants is recognized on a straight-line basis for the service period of the stock award based upon fair value of the award on the date of grant. The fair value of the restricted stock grants is the quoted market price for the Company's common stock on the date of grant. These restricted stock units are either time vested or vest following the third fiscal year from the date of grant subject to cumulative diluted earnings per share targets over the eligible period.

Beginning in fiscal year 2020, the annual performance-based award for the Company's non-employee directors was replaced with an annual grant of restricted stock units valued at $50,000 that vest after one year. The restricted stock unit grants to non-employee directors were made in September 2020 and September 2019.

Compensation cost ultimately recognized for performance-based restricted stock units will equal the grant date fair market value of the number of units that coincides with the actual outcome of the performance conditions. On an interim basis, the Company records compensation cost based on the estimated level of achievement of the performance conditions. The expense relating to the time vested restricted stock units is recognized on a straight-line basis over the requisite service period for the entire award.

During fiscal year 2021, 80,000 shares granted were time vested. During fiscal year 2020, 47,000 shares granted were time vested and 28,000 shares were subject to performance targets.

The following table summarizes the restricted stock units vested and shares issued during fiscal years 2021 and 2020 (amounts in thousands):

Date Granted	Measurement Period	Total Number of Units Granted	Grant Date Fair Value Per Unit	Target Level Achieved	Number of Shares Issued	Date Shares Issued
April 2018	April 2018 – March 2019	1	$15.65	Time Vested	1	April 2019
April 2016	April 2016 – March 2019	82	$10.13	131%	107	May 2019
June 2017	June 2017 – May 2019	1	$12.00	Time Vested	1	June 2019
October 2018	October 2018 – September 2019	1	$20.81	Time Vested	1	October 2019
April 2018	April 2018 – March 2019	1	$15.65	Time Vested	1	April 2019
April 2017	April 2017 – March 2020	62	$12.90	79%	49	May 2020
July 2020	July 2020	1	$27.08	Time Vested	1	July 2020
September 2019	September 2019 – September 2020	18	$22.77	Time Vested	18	September 2020
October 2018	October 2018 – September 2020	1	$20.81	Time Vested	1	October 2020
January 2021	January 2021	3	$34.68	Time Vested	3	January 2021
May 2018	April 2018 – March 2021	29	$15.30	Time Vested	29	March 2021

The following table summarizes the non-vested restricted stock units outstanding as of March 27, 2021:

Date Granted	Measurement Period	Total Number of Units Granted	Grant Date Fair Value Per Unit	Estimated Level of Achievement at March 27, 2021
May 2018	April 2018 – March 2021	29	$15.30	60% of target level
October 2018	October 2018 – September 2027	8	$20.81	Time Vested
May 2019	April 2019 – March 2022	21	$23.50	65% of target level
May 2019	April 2019 – March 2022	21	$23.50	Time Vested
August 2019	August 2019 – July 2020	1	$23.00	Time Vested
April 2020	April 2020 – March 2023	2	$26.25	Time Vested
July 2020	July 2020 – July 2023	39	$27.08	Time Vested
September 2020	September 2020 – July 2023	4	$28.54	Time Vested
September 2020	September 2020 – July 2023	5	$29.76	Time Vested
September 2020	September 2020 – September 2023	3	$29.76	Time Vested
September 2020	September 2020 – September 2021	14	$28.52	Time Vested
January 2021	January 2021 – January 2024	2	$34.62	Time Vested

Total expense relating to restricted stock units, based on grant date fair value and the achievement criteria, was $1.4 million and $0.8 million in fiscal years 2021 and 2020, respectively. Unearned compensation totaled $1.8 million as of March 27, 2021.

Stock Options

The Company grants stock options to employees and directors equal to the quoted market price of the Company's stock at the date of the grant. The fair value of stock options is estimated using the Black-Scholes option pricing formula that requires assumptions for expected volatility, expected dividends, the risk-free interest rate and the expected term of the option. Expense for stock options is recognized on a straight-lined basis over the requisite service period for each award. Options vest either immediately or over a period of up to five years using a straight-line basis and expire either five years or ten years from the date of grant.

We calculate the value of the stock options granted using the Black-Scholes model. We calculate expected volatility for stock options by taking an average of historical volatility over the expected term. The computation of expected term was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards and vesting schedules. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield in effect at the time of grant. We assume no expected dividends.

During fiscal year 2021, the Company's Board of Directors granted an option for 5,000 shares of common stock to a Company employee that vests over three years and an option for 15,000 shares of common stock to an employee that immediately vested. During fiscal year 2020, the Company's Board of Directors granted an option for 5,000 shares of common stock to a Company employee that vest over three years, and an option for 10,000 shares of common stock to a new member of the Board of Directors that vest over 5 years. The expense related to all stock option awards was $0.1 million in each of fiscal years 2021 and 2020.

The following table summarizes the Company's options for fiscal years 2021 and 2020:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding as of March 30, 2019	291	$11.16		
Granted	15	25.06		
Exercised	(156)	9.16		
Outstanding as of March 28, 2020	150	14.63		
Granted	20	27.48		
Exercised	(45)	18.01		
Outstanding as of March 27, 2021	125	15.47	3	$4,713
Exercisable as of March 27, 2021	87	$11.72	1	$3,553

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of fiscal year 2021 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 holders exercised their options on March 27, 2021. The amount of aggregate intrinsic value will change based on the fair market value of the Company's stock.

Total unrecognized compensation cost related to non-vested stock options as of March 27, 2021 was $0.1 million, which is expected to be recognized over a period of three years. The aggregate intrinsic value of stock options exercised in fiscal years 2021 and 2020 was $1.6 million and $2.5 million, respectively. Cash received from the exercise of options in fiscal years 2021 and 2020 was $0.8 million and $1.4 million, respectively.

NOTE 7 – SEGMENT AND GEOGRAPHIC DATA

Transcat has two reportable segments: Distribution and Service. The accounting policies of the reportable segments are described above in Note 1. The Company has no inter-segment sales. The following table presents segment and geographic data for fiscal years 2021 and 2020:

	FY 2021	FY 2020
Revenue:		
Service	$101,274	$ 93,003
Distribution	72,061	80,096
Total	173,335	173,099
Gross Profit:		
Service	30,695	23,486
Distribution	15,423	18,992
Total	46,118	42,478
Operating Expenses:		
Service (1)	20,254	17,814
Distribution (1)	14,791	13,814
Total	35,045	31,628
Operating Income:		
Service	10,441	5,672
Distribution	632	5,178
Total	11,073	10,850
Unallocated Amounts:		
Interest and Other Expense, net	1,091	1,120
Provision for Income Taxes	2,191	1,663
Total	3,282	2,783
Net Income	$ 7,791	$ 8,067
Total Assets:		
Service	$ 71,090	$ 67,023
Distribution	44,759	47,952
Unallocated	16,267	13,147
Total	$132,116	$128,122
Depreciation and Amortization (2):		
Service	$ 5,597	$ 4,930
Distribution	1,983	1,729
Total	$ 7,580	$ 6,659
Capital Expenditures:		
Service	$ 4,236	$ 3,974
Distribution	2,381	2,605
Total	$ 6,617	$ 6,579
Geographic Data:		
Revenues to Unaffiliated Customers (3):		
United States (4)	$159,270	$157,744
Canada	13,040	13,827
Other International	1,024	1,528
Total	$173,335	$173,099
Property and Equipment:		
United States (4)	$ 19,897	$ 18,672
Canada	2,306	2,161
Total	$ 22,203	$ 20,833

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

(2) Including amortization of catalog costs and intangible assets.

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

(4) United States includes Puerto Rico.

NOTE 8 – COMMITMENTS

Leases

Transcat leases facilities, equipment, and vehicles under various non-cancelable operating leases. As of March 27, 2021, the remaining lease terms on our operating leases range from approximately one year to less than ten years. Renewal options not yet exercised and termination options are not reasonably certain of exercise by the Company. There is no transfer of title or option to purchase the leased assets upon expiration. The weighted average discount rate for both of the years ended March 27, 2021 and March 28, 2020 was 4.15%.

The components of lease expense for the current and prior-year comparative periods were as follows:

	FY 2021	FY 2020
Operating lease cost	3,206	3,295
Variable lease cost	577	444
Total lease cost	3,783	3,739

Supplemental cash flow information related to leases was as follows:

	FY 2021	FY 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	2,153	1,961
Right to Use Assets obtained in exchange for lease liabilities	2,945	2,940

Total rental expense was approximately $3.8 million and $3.7 million in fiscal years 2021 and 2020, respectively. The minimum future annual rental payments under the non-cancelable leases at March 27, 2021 are as follows (in millions):

Fiscal Year	
2022	$ 2.9
2023	2.3
2024	1.9
2025	1.4
2026	0.8
Thereafter	3.2
Total minimum lease payments	$12.5
Less: Imputed interest	2.9
Present value of remaining lease payments	$ 9.6

Effective December 2018, the Company has term loan repayments (principal plus interest) of $0.2 million per month through December 2025. These amounts are not reflected in the table above. Principal payments relating to the 2018 Term Loan will be $2.1 million in fiscal year 2022, $2.2 million in fiscal year 2023, $2.2 million in fiscal year 2024, $2.3 million in fiscal year 2025 and $1.8 million in fiscal year 2026.

NOTE 9 – BUSINESS ACQUISITIONS

BioTek

Effective December 16, 2020, Transcat acquired substantially all of the assets of BioTek Services, Inc. ("BioTek"), a Virginia based provider of pipette calibration services. This transaction aligned with a key component of the Company's acquisition strategy of targeting businesses that expand the depth and breadth of the Company's service capabilities. BioTek's focus on pipettes complements the current offerings Transcat provides to the life science sector.

100% of the goodwill and intangible assets relating to the BioTek acquisition has been allocated to the Service segment. Intangible assets related to the BioTek acquisition are being amortized for financial reporting purposes on an accelerated basis over the estimated useful life of up to 10 years and are deductible for tax purposes. Amortization of goodwill related to the BioTek acquisition is deductible for tax purposes.

The total purchase price paid for the assets of BioTek was approximately \$3.5 million. \$0.4 million of the purchase price has been put into escrow as a holdback for indemnification claims, if any. The following is a summary of the purchase price allocation, in the aggregate, to the fair value, based on Level 3 inputs, of BioTek's assets and liabilities acquired during the period presented:

		FY 2021
Goodwill		\$1,063
Intangible Assets – Customer Base & Contracts		1,930
Intangible Assets – Covenant Not to Compete		100
		3,093
Plus:	Current Assets	406
	Non-Current Assets	8
Total Purchase Price		\$3,507

TTE

Effective, February 21, 2020, Transcat acquired substantially all of the assets of TTE Laboratories, Inc. ("TTE") a Boston, MA-based provider of pipette calibration services and equipment. This transaction aligned with a key component of the Company's acquisition strategy of targeting businesses that expand the depth and breadth of the Company's service capabilities. TTE's focus on pipettes complements the current offerings Transcat provides to the life science sector. We will refer to TTE as "pipettes.com".

75% of the goodwill and intangible assets relating to the pipettes.com acquisition has been allocated to the Service segment with the remaining 25% allocated to the Distribution segment. Intangible assets related to the pipettes.com acquisition are being amortized for financial reporting purposes on an accelerated basis over the estimated useful life of up to 10 years and are deductible for tax purposes. Amortization of goodwill related to the pipettes.com acquisition is deductible for tax purposes.

The total purchase price paid for the assets of pipettes.com was approximately \$12.2 million. \$1.2 million of the purchase price has been put into escrow as a holdback for indemnification claims, if any. The following is a summary of the purchase price allocation, in the aggregate, to the fair value, based on Level 3 inputs, of pipettes.com assets and liabilities acquired during the period presented.

		FY 2021
Goodwill		\$ 6,795
Intangible Assets – Customer Base & Contracts		4,410
Intangible Assets – Covenant Not to Compete		120
		11,325
Plus:	Current Assets	884
	Non-Current Assets	261
Less:	Current Liabilities	(239)
Total Purchase Price		\$12,231

The results of acquired businesses are included in Transcat's consolidated operating results as of the dates the businesses were acquired. The following unaudited pro forma information presents the Company's results of operations as if the acquisitions of pipettes.com and BioTek had occurred at the beginning of fiscal year 2020. The pro forma results do not purport to represent what the Company's results of operations actually would have been if the transactions had occurred at the beginning of the period presented or what the Company's operating results will be in future periods.

	(Unaudited) Fiscal Years Ended	
	March 27, 2021	March 28, 2020
Total Revenue	$174,883	$182,459
Net Income	$ 8,051	$ 9,017
Basic Earnings Per Share	$ 1.08	$ 1.23
Diluted Earnings Per Share	$ 1.07	$ 1.20

IIS

Effective July 19, 2019, Transcat acquired Infinite Integral Solutions Inc. ("IIS"). IIS, headquartered in Mississauga, Ontario, Canada, is the owner and developer of the CalTree™ suite of software solutions for the automation of calibration procedures and datasheet generation. Total consideration for the shares of IIS was 1.4 million Canadian dollars, subject in part to the achievement of certain milestones. 1.0 million Canadian dollars was paid during fiscal year 2020 and was included as a business acquisition in the Consolidated Statement of Cash Flows. 1.0 million Canadian dollars has been allocated to software and property and equipment and 0.3 million Canadian has been allocated to goodwill. Due to the immaterial amount of pre-acquisition revenue and expenses, no pro forma table of results has been presented.

GRS

Effective April 1, 2019, Transcat acquired substantially all of the assets of Gauge Repair Service ("GRS"), a California-based provider of calibration services. This transaction leveraged the Company's infrastructure while also increasing the depth and breadth of the Company's service capabilities. Due to the immaterial amount of the purchase price of the GRS assets, it has been included in the purchases of property and equipment in the Consolidated Statement of Cash Flows.

Certain of the Company's acquisition agreements include provisions for contingent consideration and other holdback amounts. The Company accrues for contingent consideration and holdback provisions based on their estimated fair value at the date of acquisition. As of March 27, 2021, there was no other holdback amounts unpaid and reflected in current liabilities on the Consolidated Balance Sheets.

During fiscal year 2021, acquisition costs of $0.1 million were recorded as incurred as general and administrative expenses in the Consolidated Statements of Income.

NOTE 10 – QUARTERLY DATA (Unaudited)

The following table presents a summary of certain unaudited quarterly financial data for fiscal years 2021 and 2020:

	Total Revenues	Gross Profit	Net Income	Basic Earnings Per Share (a)	Diluted Earnings Per Share (a)
FY 2021:					
Fourth Quarter	$48,762	$13,970	$3,208	$0.43	$0.42
Third Quarter	44,062	11,245	1,761	0.24	0.23
Second Quarter	41,607	11,494	2,024	0.27	0.27
First Quarter	38,904	9,409	798	0.11	0.11
FY 2020:					
Fourth Quarter	$45,762	$12,053	$2,493	$0.34	$0.33
Third Quarter	43,179	9,928	1,477	0.20	0.20
Second Quarter	41,763	10,445	2,379	0.32	0.32
First Quarter	42,395	10,052	1,718	0.24	0.23

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

NOTE 11 – SUBSEQUENT EVENT

Effective April 29, 2021, Transcat acquired substantially all of the assets of Upstate Metrology Inc. ("Upstate Metrology"), a New York based provider of calibration services. This transaction aligned with a key component of the Company's acquisition strategy of targeting businesses that expand the depth and breadth of the Company's service capabilities. The total purchase price paid for the assets of Upstate Metrology was approximately $0.9 million.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) CONCLUSION REGARDING THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

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

(b) MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. In designing and evaluating our internal control system, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives and that the effectiveness of any system has inherent limitations including, but not limited to, the possibility of human error and the circumvention or overriding of controls and procedures. Management, including the principal executive officer and the principal financial officer, is required to apply judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected in a timely manner.

An evaluation was performed under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of the design and operation of our procedures and internal control over financial reporting using the framework and criteria described in the *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management, including our principal executive officer and our principal financial officer, concluded that our internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles as of March 27, 2021.

This annual report includes an attestation report of our independent registered public accounting firm, Freed Maxick CPAs, P.C., regarding internal control over financial reporting.

(c) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There has been no change in our internal control over financial reporting that occurred during the last fiscal quarter covered by this annual report (our fourth fiscal quarter) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is incorporated herein by reference from our proxy statement for our 2021 Annual Meeting of Shareholders under the headings "Proposal One: Election of Directors," "Corporate Governance," "Executive Officers and Senior Management," and "Delinquent Section 16(a) Reports," which proxy statement will be filed pursuant to Regulation 14A within 120 days after the March 27, 2021 fiscal year end.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated herein by reference from our proxy statement for our 2021 Annual Meeting of Shareholders under the headings "Executive Compensation" and "Director Compensation," which proxy statement will be filed pursuant to Regulation 14A within 120 days after the March 27, 2021 fiscal year end.

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

With the exception of the information presented in the table below, the information required by this Item 12 is incorporated herein by reference from our proxy statement for our 2021 Annual Meeting of Shareholders under the headings "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management," which proxy statement will be filed pursuant to Regulation 14A within 120 days after the March 27, 2021 fiscal year end.

Securities Authorized for Issuance Under Equity Compensation Plans as of March 27, 2021:

Equity Compensation Plan Information

(In Thousands, Except Per Share Amounts)

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	125 (1)	$15.47 (2)	898
Equity compensation plans not approved by security holders	—	—	—
Total	125 (1)	$15.47 (2)	898

(1) Includes performance-based restricted stock units granted to officers and key employees pursuant to our 2003 Incentive Plan. See Note 6 to our Consolidated Financial Statements in Item 8 of Part II.

(2) Does not include restricted stock units.

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

The information required by this Item 13 is incorporated herein by reference from our proxy statement for our 2021 Annual Meeting of Shareholders under the headings "Corporate Governance" and "Certain Relationships and Related Transactions," which proxy statement will be filed pursuant to Regulation 14A within 120 days after the March 27, 2021 fiscal year end.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is incorporated herein by reference from our proxy statement for our 2021 Annual Meeting of Shareholders under the heading "Proposal Three: Ratification of Selection of our Independent Registered Public Accounting Firm," which proxy statement will be filed pursuant to Regulation 14A within 120 days after the March 27, 2021 fiscal year end.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

(b) Exhibits.

INDEX TO EXHIBITS

(3) Articles of Incorporation and Bylaws

3.1(a) The Articles of Incorporation, as amended (the "Articles"), are incorporated herein by reference from Exhibit 4(a) to the Company's Registration Statement on Form S-8 (Registration No. 33-61665) filed on August 8, 1995.

3.1(b) Certificate of Amendment to the Articles is incorporated herein by reference from Exhibit 3(i) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.

3.1(c) Certificate of Amendment to the Articles is incorporated herein by reference from Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended March 31, 2012.

3.1(d) Certificate of Amendment to the Articles is incorporated herein by reference from Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 2015.

3.2 Code of Regulations, as amended through May 1, 2019, are incorporated herein by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 3, 2019.

(4) Instruments Defining the Rights of Security Holders

4.1 Description of Securities is incorporated herein by reference from Exhibit 4.1 to the Company's Annual Report on Form 10-K for the year ended March 30, 2019.

(10) Material contracts

#10.1 Transcat, Inc. 2003 Incentive Plan, as Amended and Restated, is incorporated herein by reference from Appendix A to the Company's definitive proxy statement filed on July 22, 2011 in connection with the 2011 Annual Meeting of Shareholders.

#10.2 Amendment No. 1 to the Transcat, Inc. 2003 Incentive Plan, as Amended and Restated, is incorporated herein by reference from Appendix B to the Company's definitive proxy statement filed on July 26, 2013 in connection with the 2013 Annual Meeting of Shareholders.

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

#10.4 Form of Performance-Based Restricted Stock Unit Award Notice granted under the Transcat, Inc. 2003 Incentive Plan, as Amended and Restated, is incorporated by reference from Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended March 26, 2016.

#10.5 Form of Award Notice of Non-Qualified Stock Option (five-year expiration) granted under the Transcat, Inc. 2003 Incentive Plan, as Amended and Restated, is incorporated herein by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 24, 2017.

#10.6 Form of Award Notice of Long-Term Compensation Award granted under the Transcat, Inc. 2003 Incentive Plan, as Amended and Restated, is incorporated herein by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 24, 2017.

#10.7 Form of Award Notice of Restricted Stock Units and Performance Restricted Stock Units granted pursuant to the Transcat, Inc. 2003 Incentive Plan is incorporated herein by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 24, 2018.

#10.8 Form of Award Notice of Long-Term Compensation Awards granted pursuant to the Transcat, Inc. 2003 Incentive Plan is incorporated herein by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 24, 2018.

#10.9 Form of Award Notice of Director Long-Term Compensation Award granted pursuant to the Transcat, Inc. 2003 Incentive Plan is incorporated herein by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 28, 2019.

#10.10 Form of Award Notice of Director Non-Qualified Stock Option Award granted pursuant to the Transcat, Inc. 2003 Incentive Plan is incorporated herein by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 28, 2019.

10.11 Amended and Restated Credit Facility Agreement, dated as of October 30, 2017, by and between Transcat, Inc. and Manufacturers and Traders Trust Company is incorporated herein by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 23, 2017.

10.12 Amended and Restated Credit Facility Agreement Amendment 1, dated as of December 10, 2018, by and between Transcat, Inc. and Manufacturers and Traders Trust Company is incorporated herein by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 12, 2018.

10.13 Amended and Restated Credit Facility Agreement Amendment 2, dated as of May 18, 2020, by and between Transcat, Inc, and Manufacturers and Traders Trust Company is incorporated herein by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 27, 2020.

10.14 Lease Agreement between Gallina Development Corporation and Transcat, Inc. dated November 28, 2017, is incorporated herein by reference from Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended March 31, 2018.

10.15 Lease Agreement between AK Leasehold I, LLC and Transcat, Inc. dated May 21, 2019, is incorporated herein by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 28, 2019.

#10.16 Transcat, Inc. Post-Retirement Benefit Plan for Officers (Amended and Restated Effective April 2, 2012) is incorporated herein by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.

#10.17 Transcat, Inc. Executive Officer and Director Share Repurchase Plan is incorporated herein by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 4, 2011.

#10.18 Transcat, Inc. 2009 Insider Stock Sales Plan, as amended, is incorporated herein by reference from Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended March 31, 2012.

#10.19 Agreement for Severance Upon Change in Control between Transcat, Inc. and Lee D. Rudow dated as of May 7, 2012 is incorporated herein by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 11, 2012.

10.20 Asset Purchase Agreement, dated February 21, 2020, by and among Transcat, Inc., TTE Laboratories Inc., Benjamin Leverone and Michael Anema is incorporated herein by reference from Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended March 28, 2020.

(21) Subsidiaries of the registrant

*21.1 Subsidiaries

(23) Consents of experts and counsel

*23.1 Consent of Freed Maxick CPAs, P.C.

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

*31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

*31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(32) Section 1350 Certifications

*32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(101) Interactive Data File

*101.INS XBRL Instance Document

*101.SCH XBRL Taxonomy Extension Schema Document

*101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

*101.DEF XBRL Taxonomy Extension Definition Linkbase Document

*101.LAB XBRL Taxonomy Extension Label Linkbase Document

*101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

*(104) Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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* Exhibit filed with this report.

\# Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRANSCAT, INC.

Date: June 8, 2021

By: /s/ LEE D. RUDOW
Lee D. Rudow
President and Chief Executive Officer

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

Date	Signature	Title
June 8, 2021	/s/ LEE D. RUDOW Lee D. Rudow	*Director, President and Chief Executive Officer (Principal Executive Officer)*
June 8, 2021	/s/ MARK A. DOHENY Mark A. Doheny	*Vice President of Finance and Chief Financial Officer (Principal Financial Officer)*
June 8, 2021	/s/ SCOTT D. DEVERELL Scott D. Deverell	*Controller and Principal Accounting Officer (Principal Accounting Officer)*
June 8, 2021	/s/ GARY J. HASELEY Gary J. Haseley	*Chairman of the Board of Directors*
June 8, 2021	/s/ CRAIG D. CAIRNS Craig D. Cairns	*Director*
June 8, 2021	/s/ OKSANA DOMINACH Oksana Dominach	*Director*
June 8, 2021	/s/ CHARLES P. HADEED Charles P. Hadeed	*Director*
June 8, 2021	/s/ RICHARD J. HARRISON Richard J. Harrison	*Director*
June 8, 2021	/s/ MBAGO M. KANIKI Mbago M. Kaniki	*Director*
June 8, 2021	/s/ PAUL D. MOORE Paul D. Moore	*Director*
June 8, 2021	/s/ ANGELA J. PANZARELLA Angela J. Panzarella	*Director*
June 8, 2021	/s/ CARL E. SASSANO Carl E. Sassano	*Director*

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Shareholder and Corporate Information

Stock Exchange Listing: Nasdaq: TRNS

2021 Virtual Annual Meeting

The 2021 annual meeting of shareholders will be held on Wednesday, September 8, 2021, at 12:00 pm Eastern Time and will be conducted exclusively as a virtual meeting by means of a live webcast. Shareholders will be able to attend the meeting, vote shares and submit questions via the Internet by visiting: www.virtualshareholdermeeting.com/TRNS2021

Transfer Agent and Registrar

For services such as change of address, replacement of lost certificates and changes in registered ownership, or for inquiries about your account, contact:

Computershare

First Class/Registered/Certified Mail:
P.O. Box 505000 Louisville,
KY 40233

Courier Services:
462 South 4th Street, Suite 1600
Louisville, KY 40202

Shareholder Services:
(800) 622-6757 (US, Canada, Puerto Rico)
(781) 575-2879 (non-US)
www-us.computershare.com/Investor

Investor Relations

Investors, stockbrokers, security analysts and others seeking information about us should contact:

Mark Doheny
Chief Financial Officer (585)
563-5766

mark.doheny@transcat.com

Additional information about Transcat is available at: www.transcat.com

Independent Registered Public Accounting Firm

Freed Maxick CPAs, P.C.
Rochester, New York

Corporate Counsel

Harter Secrest & Emery LLP
Rochester, New York

Executive Officers and Senior Management

Lee D. Rudow
President and Chief Executive Officer

Mark Doheny
Vice President of Finance and Chief Financial Officer

James Jenkins
General Counsel, Vice President of Corporate Development and Corporate Secretary

Michael W. West
Vice President of Distribution and Marketing

Marcy Bosley
Vice President of Service Sales

Leanne Branham
Vice President of Service Operations

Scott D. Deverell
Corporate Controller and Principal Accounting Officer

Jennifer J. Nelson
Vice President of Human Resources

Andrew J. Quaranto
Vice President of Information Technology

Board of Directors

Craig D. Cairns
President, Howe and Rusling, Inc.

Oksana S. Dominach [1, 3]
Senior Vice President & Treasurer, Constellation Brands, Inc.

Charles P. Hadeed [1*, 2]
Retired Chief Executive Officer, Transcat, Inc.

Richard J. Harrison [2, 3]
Vice Chairman, MDO II

Gary J. Haseley [2*]
Chairman of the Board
Retired Senior Vice President and General Manager, Kaman Automation, Control & Energy

Mbago M. Kaniki
Chief Executive Officer, Adansonia Management

Paul D. Moore [1, 4*]
Retired Senior Vice President, M&T Bank Corporation

Angela J. Panzarella [3*, 4]
Retired Chief Executive Officer, YWCA of Rochester & Monroe County

Lee D. Rudow [2]
President and Chief Executive Officer, Transcat, Inc.

Carl E. Sassano [4]
Retired Chief Executive Officer, Transcat, Inc.

[1] Audit Committee
[2] Executive Committee
[3] Compensation Committee
[4] Corporate Governance and Nominating Committee
* Committee Chair

TRANSCAT®

Trust in every measure

35 Vantage Point Drive, Rochester NY 14624
585-352-7777 • 800-828-1470 • Transcat.com

Nasdaq: TRNS

Boston, MA ● Charlotte, NC ● Dayton, OH ● Denver, CO ● Ft. Wayne, IN ● Harrisburg, PA ● Houston, TX
Los Angeles, CA ● Milwaukee, WI ● Norfolk, VA ● Philadelphia, PA ● Phoenix, AZ ● Pittsburgh, PA
Portland, OR ● Richmond, VA ● Rochester, NY ● San Diego, CA ● San Juan, PR ● St. Louis, MO
Canada Locations: Montreal ● Ottawa ● Toronto