

REFINITIV

DELTA REPORT

10-Q

TRNS - TRANSCAT INC

10-Q - JUNE 29, 2024 COMPARED TO 10-Q - DECEMBER 23, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1164
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 CHANGES	305
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 DELETIONS	526
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 ADDITIONS	333
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended: **December 23, 2023** **June 29, 2024**

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

(State or other jurisdiction of incorporation or organization)

16-0874418

(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(s)	Name of each exchange on which registered
Common Stock, \$0.50 par value	TRNS	Nasdaq Global Market

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 (§232.405 of this chapter) 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

The number of shares of common stock, par value \$0.50 per share, of the registrant outstanding as of January 26, 2024 July 31, 2024 was 8,829,127 9,145,144.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited)		(Unaudited)		(Unaudited)	
	Third Quarter Ended		Nine Months Ended		First Quarter Ended	
	December 23,	December 24,	December 23,	December 24,	June 29,	June 24,
	2023	2022	2023	2022	2024	2023
Service Revenue	\$ 41,509	\$ 35,977	\$ 122,793	\$ 105,120	\$ 43,778	\$ 39,853
Distribution Sales	23,657	21,425	65,775	63,382	22,929	20,745
Total Revenue	65,166	57,402	188,568	168,502	66,707	60,598
Cost of Service Revenue	28,015	25,184	82,244	72,005	28,895	26,882
Cost of Distribution Sales	16,215	15,818	46,553	47,292	15,157	15,006
Total Cost of Revenue	44,230	41,002	128,797	119,297	44,052	41,888
Gross Profit	20,936	16,400	59,771	49,205	22,655	18,710
Selling, Marketing and Warehouse Expenses	7,519	6,595	20,844	18,315	7,801	6,469
General and Administrative Expenses	9,123	6,642	28,350	20,497	9,755	7,601
Total Operating Expenses	16,642	13,237	49,194	38,812	17,556	14,070
Operating Income	4,294	3,163	10,577	10,393	5,099	4,640
Interest Expense	81	731	1,785	1,651	52	814
Interest Income	(347)	(5)	(347)	(15)	(312)	-
Other Income/Expense	289	313	304	96		
Total Interest and Other	23	1,039	1,742	1,732		
Other Expense					131	64
Total Interest and Other, net					(129)	878
Income Before Income Taxes	4,271	2,124	8,835	8,661		
Income Before Provision For Income Taxes					5,228	3,762
Provision for Income Taxes	923	523	2,078	1,631	820	813
Net Income	\$ 3,348	\$ 1,601	\$ 6,757	\$ 7,030	\$ 4,408	\$ 2,949
Basic Earnings Per Share	\$ 0.39	\$ 0.21	\$ 0.84	\$ 0.93	\$ 0.49	\$ 0.39
Average Shares Outstanding	8,615	7,559	8,060	7,547	9,064	7,622
Diluted Earnings Per Share	\$ 0.38	\$ 0.21	\$ 0.83	\$ 0.92	\$ 0.48	\$ 0.38
Average Shares Outstanding	8,752	7,666	8,187	7,644	9,196	7,762

See accompanying notes to consolidated financial statements.

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

	(Unaudited)		(Unaudited)		(Unaudited)	
	Third Quarter Ended		Nine Months Ended		First Quarter Ended	
	December 23,	December 24,	December 23,	December 24,	June 29,	June 24,
	2023	2022	2023	2022	2024	2023
Net Income	\$ 3,348	\$ 1,601	\$ 6,757	\$ 7,030	\$ 4,408	\$ 2,949
Other Comprehensive Income (Loss):						
Other Comprehensive (Loss) / Income :						
Currency Translation Adjustment	364	393	488	(878)	(161)	476
Other, net of tax effects of \$3 and \$2 for the third quarter ended December 23, 2023 and December 24, 2022, respectively; and \$7 and \$(4) for the nine months ended December 23, 2023 and December 24, 2022, respectively	9	8	21	(12)		
Total Other Comprehensive Income (Loss)	373	401	509	(890)		
Other, net of tax effects of \$2 and \$2 for the first quarter ended June 29, 2024 and June 24, 2023, respectively					6	6
Total Other Comprehensive (Loss) / Income					(155)	482
Comprehensive Income	\$ 3,721	\$ 2,002	\$ 7,266	\$ 6,140	\$ 4,253	\$ 3,431

See accompanying notes to consolidated financial statements.

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

	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	December 23,	March 25,	June 29,	March 30,
	2023	2023	2024	2024
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 35,205	\$ 1,531		
Accounts Receivable, less allowance for credit losses of \$579 and \$457 as of December 23, 2023 and March 25, 2023, respectively	43,307	44,698		
Cash and Cash Equivalents			\$ 22,657	\$ 19,646
Marketable Securities			-	\$ 15,533
Accounts Receivable, less allowance for credit losses of \$492 and \$544 as of June 29, 2024 and March 30, 2024, respectively			48,156	47,779
Other Receivables	819	506	242	506
Inventory, net	16,178	16,929	18,128	17,418
Prepaid Expenses and Other Current Assets	3,295	3,935	5,070	4,276
Total Current Assets	98,804	67,599	94,253	105,158
Property and Equipment, net	37,222	29,064	45,954	38,944
Goodwill	105,700	69,360	138,146	105,585

Intangible Assets, net	21,459	13,799	26,254	19,987
Right To Use Assets, net	16,834	14,876		
Right to Use Assets, net			17,996	16,823
Other Assets	1,055	1,051	1,049	1,055
Total Assets	<u>\$ 281,074</u>	<u>\$ 195,749</u>	<u>\$ 323,652</u>	<u>\$ 287,552</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Accounts Payable	\$ 11,355	\$ 15,869	\$ 13,076	\$ 11,495
Accrued Compensation and Other Current Liabilities	15,683	10,201	12,677	16,739
Income Taxes Payable			3,687	2,926
Current Portion of Long-Term Debt	2,316	2,248	2,362	2,339
Total Current Liabilities	29,354	28,318	31,802	33,499
Long-Term Debt	2,411	46,869	1,218	1,817
Deferred Tax Liabilities, net	10,855	6,538	9,287	9,291
Lease Liabilities	14,457	12,960	15,400	14,873
Other Liabilities	5,527	1,434	3,657	2,903
Total Liabilities	<u>62,604</u>	<u>96,119</u>	<u>61,364</u>	<u>62,383</u>
Shareholders' Equity:				
Common Stock, par value \$0.50 per share, 30,000,000 shares authorized; 8,828,515 and 7,562,604 shares issued and outstanding as of December 23, 2023 and March 25, 2023, respectively	4,414	3,781		
Common Stock, par value \$0.50 per share, 30,000,000 shares authorized; 9,144,731 and 8,839,299 shares issued and outstanding as of June 29, 2024 and March 30, 2024, respectively			4,572	4,420
Capital in Excess of Par Value	140,382	27,886	175,299	141,624
Accumulated Other Comprehensive Loss	(691)	(1,200)	(1,104)	(949)
Retained Earnings	74,365	69,163	83,521	80,074
Total Shareholders' Equity	<u>218,470</u>	<u>99,630</u>	<u>262,288</u>	<u>225,169</u>
Total Liabilities and Shareholders' Equity	<u>\$ 281,074</u>	<u>\$ 195,749</u>	<u>\$ 323,652</u>	<u>\$ 287,552</u>

See accompanying notes to consolidated financial statements.

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

	(Unaudited)		(Unaudited)	
	Nine Months Ended		Three Months Ended	
	December 23,	December 24,	June 29,	June 24,
	2023	2022	2024	2023
Cash Flows from Operating Activities:				
Net Income	\$ 6,757	\$ 7,030	\$ 4,408	\$ 2,949
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:				
Net Loss on Disposal of Property and Equipment	24	62		
Net (Gain)/Loss on Disposal of Property and Equipment			(4)	8

Deferred Income Taxes	42	(52)	(4)	44
Depreciation and Amortization	9,841	8,243	4,113	2,790
Provision for Accounts Receivable and Inventory Reserves	379	174		
(Recovery of)/Provision for Accounts Receivable and Inventory Reserves			(89)	138
Stock-Based Compensation Expense	3,338	2,757	697	930
Changes in Assets and Liabilities, net of acquisitions:				
Accounts Receivable and Other Receivables	3,819	1,850	2,814	3,115
Inventory	3,208	(3,589)	(235)	1,950
Prepaid Expenses and Other Current Assets	728	1,074	(687)	531
Accounts Payable	(5,194)	(424)	1,425	(4,315)
Accrued Compensation and Other Current Liabilities	3,947	(3,150)	(4,273)	(1,203)
Income Taxes Payable			759	599
Net Cash Provided by Operating Activities	26,889	13,975	8,924	7,536
Cash Flows from Investing Activities:				
Purchases of Property and Equipment	(9,099)	(7,149)		
Proceeds from Sale of Property and Equipment	-	10		
Purchase of Property and Equipment			(3,674)	(2,767)
Business Acquisitions, net of cash acquired	(12,932)	(8,306)	(15,953)	(2,869)
Sales of Marketable Securities			15,533	-
Net Cash Used in Investing Activities	(22,031)	(15,445)	(4,094)	(5,636)
Cash Flows from Financing Activities:				
(Repayment of) Proceeds from Revolving Credit Facility, net	(42,713)	2,286		
Repayment of Revolving Credit Facility, net			-	(204)
Repayments of Term Loan	(1,678)	(1,570)	(576)	(553)
Issuance of Common Stock, net of direct costs	75,714	503	260	199
Repurchase of Common Stock	(2,247)	(437)	(1,619)	(301)
Net Cash Provided by Financing Activities	29,076	782		
Net Cash Used in Financing Activities			(1,935)	(859)
Effect of Exchange Rate Changes on Cash and cash equivalents	(260)	885		
Effect of Exchange Rate Changes on Cash and Cash Equivalents			116	(423)
Net Increase in Cash and cash equivalents	33,674	197		
Cash and cash equivalents at Beginning of Period	1,531	1,396		
Cash and cash equivalents at End of Period	\$ 35,205	\$ 1,593		
Net Increase in Cash and Cash Equivalents			3,011	618
Cash and Cash Equivalents at Beginning of Period			19,646	1,531
Cash and Cash Equivalents at End of Period			\$ 22,657	\$ 2,149
Supplemental Disclosure of Cash Flow Activity:				
Cash paid during the period for:				
Interest	\$ 1,652	\$ 1,510	\$ 259	\$ 816
Income Taxes, net	\$ 1,884	\$ 957	\$ 63	\$ 107
Supplemental Disclosure of Non-Cash Investing and Financing Activities:				
Common stock issued for acquisitions	\$ 34,769	\$ 145	\$ 32,781	\$ 6,831
Assets acquired and liabilities assumed in business combinations:				
Accrued holdback and contingent consideration related to acquisitions	\$ 4,859	\$ 518	\$ 1,250	\$ -
Contingent consideration treated as equity related to acquisitions			\$ 750	\$ -

Balance Sheet Reclassification of Property and Equipment, net to Inventory

\$	737	\$	576	\$	410	\$	230
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See accompanying notes to consolidated financial statements.

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TRANSCAT, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In Thousands, Except Par Value Amounts)
(Unaudited)

	Capital						Capital					
	Common Stock		In	Accumulated			Common Stock		In	Accumulated		
	Issued		Excess	Other			Issued		Excess	Other		
	\$0.50 Par Value		of Par	Comprehensive	Retained		\$0.50 Par Value		of Par	Comprehensive	Retained	
	Shares	Amount	Value	Income (Loss)	Earnings	Total	Shares	Amount	Value	(Loss)	Earnings	Total
Balance as of March 26, 2022	7,529	\$ 3,765	\$ 23,900	\$ (233)	\$ 58,744	\$ 86,176						
Balance as of March 25, 2023							7,562	\$ 3,781	\$ 27,886	\$ (1,200)	\$ 69,163	\$ 99,630
Issuance of Common Stock	8	3	363	-	-	366	82	42	6,988	-	-	7,030
Repurchase of Common Stock	(7)	(3)	(164)	-	(270)	(437)	(3)	(2)	(86)	-	(213)	(301)
Stock-Based Compensation	16	8	820	-	-	828	2	1	929	-	-	930
Other Comprehensive Loss	-	-	-	(453)	-	(453)						
Net Income	-	-	-	-	3,072	3,072						
Balance as of June 25, 2022	7,546	\$ 3,773	\$ 24,919	\$ (686)	\$ 61,546	\$ 89,552						
Issuance of Common Stock	3	2	141	-	-	143						
Repurchase of Common Stock	-	-	-	-	-	-						
Stock-Based Compensation	9	4	1,110	-	-	1,114						
Other Comprehensive Loss	-	-	-	(838)	-	(838)						
Net Income	-	-	-	-	2,357	2,357						
Balance as of September 24, 2022	7,558	\$ 3,779	\$ 26,170	\$ (1,524)	\$ 63,903	\$ 92,328						
Issuance of Common Stock	1	-	139	-	-	139						
Stock-Based Compensation	1	1	814	-	-	815						
Other Comprehensive Income	-	-	-	401	-	401	-	-	-	482	-	482
Net Income	-	-	-	-	1,601	1,601	-	-	-	-	2,949	2,949

Balance as of December 24, 2022	7,560	\$ 3,780	\$ 27,123	\$ (1,123)	\$ 65,504	\$ 95,284						
Balance as of June 24, 2023							7,643	\$ 3,822	\$ 35,717	\$ (718)	\$ 71,899	\$ 110,720
	Common Stock Issued		Capital In Excess of Par Value		Accumulated Other Comprehensive Income (Loss)		Common Stock Issued		Capital In Excess of Par Value		Accumulated Other Comprehensive Income (Loss)	
	\$0.50 Par Value		\$0.50 Par Value		Retained Earnings	Total	\$0.50 Par Value		\$0.50 Par Value		Retained Earnings	Total
	Shares	Amount	Value				Shares	Amount	Value			
Balance as of March 25, 2023	7,562	\$ 3,781	\$ 27,886	\$ (1,200)	\$ 69,163	\$ 99,630						
Balance as of March 30, 2024							8,839	\$ 4,420	\$ 141,624	\$ (949)	\$ 80,074	\$ 225,169
Issuance of Common Stock	82	42	6,988	-	-	7,030	302	151	32,888	-	-	33,039
Repurchase of Common Stock	(3)	(2)	(86)	-	(213)	(301)						
Stock-Based Compensation	2	1	929	-	-	930						
Other Comprehensive Income	-	-	-	482	-	482						
Net Income	-	-	-	-	2,949	2,949						
Balance as of June 24, 2023	7,643	\$ 3,822	\$ 35,717	\$ (718)	\$ 71,899	\$ 110,720						
Issuance of Common Stock	313	156	27,967	-	-	28,123						
Contingent Consideration Classified as Equity							-	-	750	-	-	750
Repurchase of Common Stock	(22)	(11)	(593)	-	(1,342)	(1,946)	(13)	(7)	(652)	-	(961)	(1,620)
Stock-Based Compensation	44	22	1,219	-	-	1,241	16	8	689	-	-	697
Other Comprehensive Loss	-	-	-	(346)	-	(346)	-	-	-	(155)	-	(155)
Net Income	-	-	-	-	460	460	-	-	-	-	4,408	4,408
Balance as of September 23, 2023	7,978	\$ 3,989	\$ 64,310	\$ (1,064)	\$ 71,017	\$ 138,252						
Proceeds from Issuance of Common Stock	849	424	80,229	-	-	80,653						
Direct Costs of Stock Offering	-	-	(5,323)	-	-	(5,323)						
Stock-Based Compensation	2	1	1,166	-	-	1,167						

Other									
Comprehensive	-	-	-	373	-	373			
Income									
Net Income	-	-	-	-	3,348	3,348			
Balance as of									
December 23,	8,829	\$ 4,414	\$ 140,382	\$ (691)	\$ 74,365	\$ 218,470			
2023									
Balance as of									
June 29, 2024					9,144	\$ 4,572	\$ 175,299	\$ (1,104)	\$ 83,521 \$ 262,288

See accompanying notes to consolidated financial statements.

TRANSCAT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – GENERAL

Description of Business: Transcat, Inc. ("Transcat," "we," "us," "our" or the "Company") is a leading provider of accredited calibration services, enterprise asset management cost control and optimization services, and value-added distributor distribution and rental source for of value-added 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; chemical manufacturing; 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.

Basis of Presentation: Transcat's unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Accordingly, the Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the Company's management, all adjustments considered necessary for a fair presentation (consisting of normal recurring adjustments) have been included. The results for the interim periods are not necessarily indicative of what the results will be for the fiscal year. The accompanying Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements as of and for the fiscal year ended March 25, 2023 30, 2024 ("fiscal year 2023 2024") contained in the Company's Annual Report on Form 10-K for fiscal year 2023 2024 filed with the SEC.

Use of Estimates: The preparation of Transcat's Consolidated Financial Statements in accordance with GAAP 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 credit losses 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, fair value of the goodwill reporting units, and the valuation of assets acquired, liabilities assumed and consideration transferred 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 may 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.

Cash and Cash Equivalents: Cash equivalents consist of highly liquid investments with an original maturity when purchased of three months or less and are stated at cost, which approximates fair value.

Marketable Securities: Marketable securities consist of highly liquid investments with an original maturity when purchased of more than three months and are stated at fair value on the Consolidated Balance Sheets. These securities are considered trading securities. Earnings on the marketable securities are included in interest income in the Consolidated Statements of Income.

Revenue Recognition: Distribution non-rental sales are recorded when an order's title and risk of loss transfers to the customer, which is generally upon shipment. Distribution rental sales are recognized over time using the **time-elapsed output method-time elapsed method** as this portrays the transfer of control 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 **time-elapsed output method-time elapsed method** as this portrays the transfer of control to the customer. Revenue is measured as the amount of consideration the Company 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. Freight billed to customers is included in revenue. Shipping and handling is not included in revenue. Provisions for customer returns are provided for in the period the related revenue is recorded based upon historical data.

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Under Accounting Standards Codification ("**ASC**" ("**ASC**") Topic 606, Revenue from Contracts with Customers, we use judgments that could potentially impact both the timing of our satisfaction of performance **obligations and our determination of transaction prices used in determining revenue recognized. obligations.** Such judgments include considerations in determining our transaction prices and when our performance obligations are satisfied for our standard product sales that include general payment terms that are between net 30 and 90 days.

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Revenue recognized from prior period performance obligations for the **third first** quarter of the fiscal year ending March **30, 2024 29, 2025** ("fiscal year **2024 2025**") was immaterial. As of **December 23, 2023 June 29, 2024**, the Company had no unsatisfied performance obligations for contracts with an original expected duration of greater than one year. Pursuant to ASC Topic 606, 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 **December 23, 2023 June 29, 2024** and March **25, 2023 30, 2024** were immaterial. See Note 4 for disaggregated revenue information.

	% of Total Net Sales	
	June 29,	June 24,
	2024	2023
Point-in-Time	85.6 %	90.7 %
Over Time - Output Method	14.4 %	9.3 %
Total	100.0 %	100.0 %

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 **the** 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 and cash equivalents, **marketable securities**, 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 **December 23, 2023 June 29, 2024** and March **25, 2023 30, 2024**, investment assets totaled **\$0.2 million, \$0.1 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 for** awards expected to vest. 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 the first **nine months quarter** of fiscal year **2024 2025** and fiscal year **2023 2024**, the Company recorded non-cash stock-based compensation cost of **\$3.3 \$0.7** million and **\$2.8 \$0.9** million, respectively, in the Consolidated Statements of Income.

Foreign Currency Translation and Transactions:The accounts of Cal OpEx Limited (d/b/a Transcat Ireland), an Irish company, and Transcat Canada Inc., both of which are wholly-owned subsidiaries of the Company, are maintained in **the their** local currencies, the Euro and the Canadian dollar, respectively, 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 Cal OpEx Limited's and Transcat Canada Inc.'s financial statements into U.S. dollars are recorded directly to the accumulated other comprehensive loss component of shareholders' equity.

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Transcat records foreign currency gains and losses on business transactions denominated in foreign currency. The net foreign currency was a net loss of \$0.1 million for each of the first **nine months quarter** of fiscal year **2024 2025** and fiscal year **2023 2024**. The Company continually utilizes short-term foreign exchange forward contracts to reduce the risk that its future earnings denominated in Canadian dollars 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 **loss loss** of \$0.1 million **and a gain during each** of **\$0.3 million during** the first **nine months quarter** of fiscal years **2024 2025** and **2023 2024**, respectively, was recognized as a component of Interest and Other Expenses, net 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 **December 23, 2023 June 29, 2024**, the Company had a foreign exchange contract, which matured in **January July** 2024, outstanding in the notional amount of **\$2.0 \$1.8** million. This contract was subsequently renewed and remains in place. The Company does not use hedging arrangements for speculative purposes.

Earnings Per Share: Basic earnings per share of the Company's common stock, par value \$0.50 per share ("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.

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For the third quarter of fiscal year 2024, the net additional common stock equivalents had a (\$0.01) effect on the calculation of diluted earnings per share. For the third quarter of fiscal year 2023, the net additional common stock equivalents had no effect on the calculation of diluted earnings per share. For the first **nine months quarter** of each of fiscal years **2024 2025** and **2023 2024**, the net additional common stock equivalents had a (\$0.01) effect on the calculation of diluted earnings per share. The average shares outstanding used to compute basic and diluted earnings per share are as follows (amounts in thousands):

	Third Quarter Ended		Nine Months Ended		First Quarter Ended	
	December 23,	December 24,	December 23,	December 24,	June 29,	June 24,
	2023	2022	2023	2022	2024	2023
Average Shares Outstanding – Basic	8,615	7,559	8,060	7,547	9,064	7,622
Effect of Dilutive Common Stock Equivalents	137	107	127	97	132	140
Average Shares Outstanding – Diluted	8,752	7,666	8,187	7,644	9,196	7,762
Anti-dilutive Common Stock Equivalents	37	148	46	163	35	57

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 for each reporting unit on an annual basis during the fourth quarter of its fiscal year, or immediately if conditions indicate that such impairment could exist. The Company is permitted, but not required, to qualitatively assess indicators of a reporting unit's fair value to determine whether it is necessary to perform the two-step goodwill impairment test. If a quantitative test is deemed necessary, a discounted cash flow analysis is prepared to estimate fair value.

Intangible assets, namely customer base and covenants not to compete, represent an allocation of purchase price to identifiable intangible assets of an acquired business. 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.

The allocation of goodwill and intangible assets by segment for the fiscal year 2025 additions are preliminary. A summary of changes in the Company's goodwill and intangible assets is as follows (amounts in thousands):

	Goodwill			Intangible Assets			Goodwill			Intangible Assets		
	Distribution	Service	Total	Distribution	Service	Total	Distribution	Service	Total	Distribution	Service	Total
Net Book Value												
as of March 25, 2023	\$ 11,458	\$ 57,902	\$ 69,360	\$ 448	\$ 13,351	\$ 13,799						

Net Book Value as of March 30, 2024							\$	38,216	\$ 67,369	\$ 105,585	\$	6,993	\$ 12,994	\$ 19,987
Additions	26,707	9,416	36,123	7,900	3,983	11,883		21,746	10,876	32,622		5,360	2,680	8,040
Amortization	-	-	-	(910)	(3,317)	(4,227)		-	-	-		(665)	(1,108)	(1,773)
Currency Translation Adjustment	-	217	217	-	4	4		-	(61)	(61)		-	-	-
Net Book Value as of December 23, 2023							\$	38,165	\$ 67,535	\$ 105,700	\$	7,438	\$ 14,021	\$ 21,459
Net Book Value as of June 29, 2024							\$	59,962	\$ 78,184	\$ 138,146	\$	11,688	\$ 14,566	\$ 26,254

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Other Liabilities: A summary of other current and non-current liabilities is as follows (amounts in thousands):

	(Unaudited) December 23, 2023	(Audited) March 25, 2023	(Unaudited) June 29, 2024	(Audited) March 30, 2024
Current Liabilities:				
Accrued Payroll and Employee Benefits	\$ 4,056	\$ 3,243	\$ 4,074	\$ 5,508
Accrued Incentives	3,095	2,507	986	4,182
Current Portion of Lease Liabilities	2,878	2,333	3,177	2,510
Accrued Acquisition Holdbacks	2,749	252	3,216	2,577
Accrued Sales Tax			727	813
Accrued Contingent Consideration	1,029	-	-	529
Other Current Liabilities	1,876	1,866	497	620
Accrued Compensation and Other Current Liabilities	<u>\$ 15,683</u>	<u>\$ 10,201</u>	<u>\$ 12,677</u>	<u>\$ 16,739</u>
Non-Current Liabilities:				
Postretirement Benefit Obligation	\$ 1,238	\$ 1,266	\$ 1,130	\$ 1,134
Accrued Acquisition Holdbacks	1,647	-	1,647	1,647
Accrued Contingent Consideration	2,402	-	750	-
Other Non-Current Liabilities	240	168	130	122
Other Liabilities	<u>\$ 5,527</u>	<u>\$ 1,434</u>	<u>\$ 3,657</u>	<u>\$ 2,903</u>

Recently Adopted Recent Accounting Pronouncements: Guidance Not Yet Adopted: In June 2016, November 2023, the Financial Accounting Standard Board ("FASB") issued ASU 2016-13, 07, Financial Instruments - Credit Losses Segment Reporting (Topic 326 280), which significantly changes how entities will measure credit losses for most financial assets. The ASU requires disclosures, on an annual and certain interim basis, of significant segment expenses and other instruments segment items that are not measured at fair value through net income. The regularly provided to the Chief Operating Decision Maker ("CODM") as well as the title and position of the CODM. 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 2023-07 is effective for annual periods beginning in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Allowance for credit losses for accounts receivable is the most significant item for the Company under this ASU. The Company adopted ASU 2016-13 2025 effective on March 26, 2023, with early adoption permitted. The adoption of this standard did ASU is expected to impact the Company's financial statement disclosures but have no material impact on our results of operations, cash flows or financial condition.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. The ASU expands the income tax disclosure requirements, principally related to the rate reconciliation table and income taxes paid. ASU 2023-09 is effective for annual periods beginning in fiscal 2026, with early adoption

permitted. The adoption of the ASU is not expected to have a material impact on our consolidated the Company's financial statements. statement disclosures.

NOTE 2 – LONG-TERM DEBT

On July 7, 2021, the Company entered into the Second Amended and Restated Credit Facility Agreement (the "Credit Agreement") with Manufacturers and Traders Trust Company ("M&T"), that amended and restated in its entirety the Company's prior credit agreement with M&T.

The Credit Agreement provides for a revolving credit commitment (the "Revolving Credit Commitment" "revolving credit facility") of \$80.0 million through June 2026, with a letter of credit subfacility of \$10.0 million. The Company's 2018 term loan, with an original principal amount of \$15.0 million (the "2018 Term Loan"), is also provided for under the Credit Agreement.

The Credit Agreement allows the Company to use up to \$50.0 million under the Revolving Credit Commitment revolving credit facility for acquisitions in any single fiscal year. The Credit Agreement restricts the Company's ability to complete acquisitions of businesses with a principal place of business located in the United Kingdom or the European Union to an aggregate purchase price of \$40.0 million during the term of the Credit Agreement, if the acquisition is financed directly or indirectly with the Revolving Credit Commitment revolving credit facility.

Under the Credit Agreement, the Company may make restricted payments up to \$25.0 million in the aggregate over the term of the Credit Agreement and \$10.0 million in any single fiscal year to repurchase shares and pay dividends.

As of December 23, 2023 June 29, 2024, \$80.0 million was available for borrowing under the revolving credit facility. As of December 23, 2023, June 29, 2024, there were no amounts outstanding under the revolving credit facility. During the first nine months of fiscal year 2024, \$12.9 million was drawn from the revolving credit facility and used for business acquisitions.

As of December 23, 2023 June 29, 2024, \$4.7 \$3.6 million was outstanding on the 2018 Term Loan, of which \$2.3 million \$2.4 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 amortizing repayments (principal plus interest) of \$0.2 million per month through its maturity date in December 2025.

Interest and Other Costs: Effective July 1, 2023, interest on outstanding borrowings under the revolving credit facility accrue, at Transcat's election, at either the variable Daily Simple SOFR or a fixed rate for a designated period at the SOFR corresponding to such period (subject to a 0.25% floor), in each case, plus a margin. 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. The Company's interest rate for the revolving credit facility for the first nine months quarter of fiscal year 2024 2025 ranged from 6.4% to was 7.1%. Interest on outstanding borrowings under the 2018 Term Loan accrue at a fixed rate of 3.90% over the term of the loan.

Covenants: The Credit Agreement has certain covenants with which the Company must comply, including a fixed charge ratio covenant, which prohibits the Company's fixed charge ratio from being less than 1.15 to 1.00, and a leverage ratio covenant, which prohibits the Company's leverage ratio from exceeding 3.00 to 1.00. The Company was in compliance with all loan covenants and requirements during the first nine three months of fiscal year 2024 2025. The Company's leverage ratio, as defined in the Credit Agreement, was 0.12 0.08 at December 23, 2023 June 29, 2024, compared with 1.60 0.10 at March 25, 2023 30, 2024.

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 3 – STOCK-BASED COMPENSATION

In September 2021, the Transcat, Inc. 2021 Stock Incentive Plan (the "2021 Plan") was approved by shareholders and became effective. The 2021 Plan replaced the Transcat, Inc. 2003 Incentive Plan (the "2003 Plan"). Shares available for grant under the 2021 Plan include any shares remaining available for issuance under the 2003 Plan and any shares that are subject to outstanding awards under the 2003 Plan that are subsequently canceled, expired, forfeited, or otherwise not issued or are settled in cash. The 2021

Plan 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 **December 23, 2023** **June 29, 2024**, 0.6 million shares of common stock were available for future grant under the 2021 Plan.

The Company receives an excess tax benefit related to restricted stock vesting and stock options exercised and redeemed. The discrete tax benefits related to share-based compensation and stock option activity during the first **nine months quarter** of fiscal year **2024****2025** and fiscal year **2023****2024** were **\$0.7****\$0.6** million and **\$0.5****million**, **\$0.1** million, respectively.

Restricted Stock Units: The Company grants time-based and performance-based restricted stock units as a component of executive and key employee compensation. Expense for restricted stock unit 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 unit 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 or cumulative **adjusted****Adjusted** EBITDA targets over the eligible period.

Compensation cost ultimately recognized for performance-based 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, 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.

The following table summarizes the non-vested restricted stock units outstanding as of **December 23, 2023** **June 29, 2024** (in thousands, except per unit data):

Date	Measurement	Total Number of Units	Grant Date Fair Value	Estimated Level of Achievement at	Measurement	Total Number of Units	Grant Date Fair Value	Estimated Level of Achievement at
Granted	Period	Outstanding	Per Unit	December 23, 2023	Period	Outstanding	Per Unit	June 29, 2024
October 2018	October 2018 – September 2028	6	\$ 20.81	Time Vested	October 2018 – September 2028	5	\$ 20.81	Time Vested
June 2021	June 2021 – March 2024	10	\$ 53.17	136% of target level				
June 2021	June 2021 – March 2024	11	\$ 53.17	Time Vested				
September 2021	September 2021 – September 2024	4	\$ 67.76	Time Vested	September 2021 – September 2024	4	\$ 67.76	Time Vested
January 2022	January 2022 – March 2024	1	\$ 90.92	136% of target level				
January 2022	January 2022 – March 2024	1	\$ 90.92	Time Vested				
January 2022	January 2022 – January 2025	1	\$ 90.41	Time Vested				
March 2022	March 2022 – March 2025	1	\$ 76.31	Time Vested	March 2022 – March 2025	1	\$ 76.31	Time Vested
May 2022	May 2022 – March 2025	11	\$ 63.17	64% of target level	May 2022 – March 2025	8	\$ 63.17	55% of target level
May 2022	May 2022 – March 2025	12	\$ 63.17	Time Vested	May 2022 – March 2025	9	\$ 63.17	Time Vested
August 2022	August 2022 – August 2025	1	\$ 78.04	Time Vested	August 2022 – August 2025	1	\$ 78.04	Time Vested
December 2022	December 2022 – December 2025	1	\$ 81.26	Time Vested				
December 2022	December 2022 – December 2025	1	\$ 67.48	Time Vested	December 2022 – December 2025	1	\$ 67.48	Time Vested

May 2023	May 2023 – March 2026	10	\$	89.70	150% of target level	May 2023 – March 2026	8	\$	89.70	150% of target level
May 2023	May 2023 – March 2026	11	\$	89.70	Time Vested	May 2023 – March 2026	8	\$	89.70	Time Vested
May 2023	May 2023 – May 2026	19	\$	89.70	Time Vested	May 2023 – May 2026	13	\$	89.70	Time Vested
August 2023	August 2023 – August 2024	6	\$	90.56	Time Vested	August 2023 – August 2024	6	\$	90.56	Time Vested
September 2023	September 2023 – September 2024	4	\$	109.55	Time Vested	September 2023 – September 2024	4	\$	109.55	Time Vested
April 2024						April 2024 - April 2027	2	\$	107.13	Time Vested
April 2024						April 2024 - April 2027	1	\$	108.04	Time Vested
May 2024						May 2024 - May 2027	1	\$	119.45	Time Vested
May 2024						May 2024 - May 2027	1	\$	124.12	Time Vested
May 2024						May 2024 - March 2027	9	\$	124.12	100% of target level
May 2024						May 2024 - March 2027	10	\$	124.12	Time Vested

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Total expense relating to restricted stock units, based on grant date fair value and the achievement criteria, was ~~\$2.4~~~~\$0.3~~ million and ~~\$1.7~~~~\$0.6~~ million in the first ~~nine months~~ quarter of fiscal year ~~2024~~~~2025~~ and fiscal year ~~2023~~~~2024~~, respectively. As of ~~December 23, 2023~~ June 29, 2024, unearned compensation, to be recognized over the grants' respective service periods, totaled ~~\$4.4~~~~\$4.8~~ million based on estimated achievement levels as of June 29, 2024. If the maximum performance levels were achieved, the unearned compensation could be a maximum of \$5.8 million.

Stock Options: The Company grants stock options to employees and directors with an exercise price 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-line 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 fair value of the stock options granted using the Black-Scholes model. The following weighted-average assumptions were used to value options granted during the first ~~three and nine months~~ quarter of fiscal year ~~2024~~~~2025~~ and fiscal year ~~2023~~~~2024~~:

	Third Quarter Ended		Nine Months Ended		First Quarter Ended	
	December 23,	December 24,	December 23,	December 24,	June 29,	June 24,
	2023	2022	2023	2022	2024	2023
Risk-Free Interest Rate	4.84 %	N/A	4.09 %	2.65 %	4.74 %	3.43 %
Volatility Factor	37.31 %	N/A	37.12 %	37.62 %	41.41 %	37.16 %
Expected Term (in Years)	6.50	N/A	6.30	4.58	4.00	6.19
Annual Dividend Rate	0.00 %	N/A	0.00 %	0.00 %	0.00 %	0.00 %

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 safe harbor rules, 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. Under FASB ASC Topic 718, "Compensation Compensation – Stock Compensation", Compensation, the Company has elected to account for forfeitures as they occur.

During the first nine months quarter of fiscal year 2024 2025, the Company granted options for 7,000 4,000 shares of common stock in the aggregate to Company employees that vest over three years, an option for 10,000 shares of common stock to a Company employee that vests over five years and options for 20,000 shares of common stock (10,000 each) to two Company directors that vest over five years.

During the first nine months quarter of fiscal year 2023 2024, the Company granted options for 46,000 6,000 shares of common stock in the aggregate to Company employees that vest over three years and an option for 10,000 shares of common stock to a Company director that vests over five years.

The expense related to all stock option awards was \$0.9 \$0.4 million in the first nine three months of fiscal year 2025 and \$0.3 million in the first three months of fiscal year 2024 and \$1.1 million in the first nine months of fiscal year 2023.

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The following table summarizes the Company's options as of and for the first nine months quarter ended December 23, 2023 June 29, 2024 (in thousands, except price per option data and years):

	Number Of Options	Weighted Average Exercise Price Per Option	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value		Number Of Options	Weighted Average Exercise Price Per Option	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of March 25, 2023	217	\$ 56.25							
Outstanding as of March 30, 2024						234	\$ 63.43		
Granted	37	\$ 93.18				4	\$ 108.04		
Exercised	(4)	\$ 24.30				(4)	\$ 24.30		
Forfeited	(5)	\$ 68.13				(12)	\$ 52.64		
Outstanding as of December 23, 2023	245	\$ 62.06	6	\$ 11,180					
Exercisable as of December 23, 2023	82	\$ 41.17	6	\$ 4,984					
Outstanding as of June 29, 2024						222	\$ 64.91	5	\$ 12,159
Exercisable as of June 29, 2024						63	\$ 36.21	5	\$ 4,750

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the third first quarter of fiscal year 2024 2025 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 December 23, 2023 June 29, 2024. The amount of aggregate intrinsic value will change based on the fair market value of the Company's common stock.

Total unrecognized compensation cost related to non-vested stock options as of December 23, 2023 June 29, 2024 was \$2.4 \$2.3 million, which is expected to be recognized over a period of three years. The aggregate intrinsic value of stock options exercised during the first nine months quarter of fiscal year 2024 2025 was \$0.3 million \$0.4 million and during the first nine months quarter of fiscal year 2023 2024 was \$0.2 million. Cash received from the exercise of options in each of the first nine months quarter of fiscal year 2024 2025 and fiscal year 2023 2024 was \$0.1 million and less than \$0.1 million, respectively, \$0.1 million.

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NOTE 4 – SEGMENT INFORMATION

The basis for determining our operating segments is the manner in which financial information is used in monitoring our operations. Transcat has two reportable segments: Service and Distribution. Through our Service segment, we offer calibration, repair, inspection, analytical qualifications, preventative maintenance, consulting and other related services. Through our Distribution segment, we sell and rent national and proprietary brand instruments to customers globally. The Company has no inter-segment sales. We believe that reporting performance at the operating income level is the best indicator of segment performance. The following table presents segment and geographic data for the **third first** quarter **and firstnine months** of fiscal year **2024 2025** and fiscal year **2023 2024** (dollars in thousands):

	Third Quarter Ended		Nine Months Ended		First Quarter Ended	
	December 23,	December 24,	December 23,	December 24,	June 29,	June 24,
	2023	2022	2023	2022	2024	2023
Revenue:						
Service	\$ 41,509	\$ 35,977	\$ 122,793	\$ 105,120	\$ 43,778	\$ 39,853
Distribution	23,657	21,425	65,775	63,382	22,929	20,745
Total	65,166	57,402	188,568	168,502	66,707	60,598
Gross Profit:						
Service	13,494	10,793	40,549	33,115	14,883	12,971
Distribution	7,442	5,607	19,222	16,090	7,772	5,739
Total	20,936	16,400	59,771	49,205	22,655	18,710
Operating Expenses:						
Service (1)	10,528	8,957	33,649	26,240	10,793	9,779
Distribution (1)	6,114	4,280	15,545	12,572	6,763	4,291
Total	16,642	13,237	49,194	38,812	17,556	14,070
Operating Income:						
Service	2,966	1,836	6,900	6,875	4,090	3,192
Distribution	1,328	1,327	3,677	3,518	1,009	1,448
Total	4,294	3,163	10,577	10,393	5,099	4,640
Unallocated Amounts:						
Interest and Other Expense, net	23	1,039	1,742	1,732		
Interest and Other (Income)/Expense, net					(129)	878
Provision for Income Taxes	923	523	2,078	1,631	820	813
Total	946	1,562	3,820	3,363	691	1,691
Net Income	\$ 3,348	\$ 1,601	\$ 6,757	\$ 7,030	\$ 4,408	\$ 2,949
Geographic Data:						
Revenues to Unaffiliated Customers (2)						
United States (3)	\$ 59,090	\$ 51,209	\$ 170,466	\$ 151,241	\$ 60,741	\$ 54,257
Canada	4,083	4,221	12,226	12,075	4,472	4,247
Other International	1,993	1,972	5,876	5,186	1,494	2,094
Total	\$ 65,166	\$ 57,402	\$ 188,568	\$ 168,502	\$ 66,707	\$ 60,598

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

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

NOTE 5 – BUSINESS ACQUISITIONS

Becnel: Effective April 15, 2024, the Company acquired Becnel Rental Tools, LLC, a privately-held Louisiana limited liability company (“Becnel”), pursuant to an Agreement and Plan of Merger (the “Becnel agreement”), by and among the Company, Becnel and the other parties thereto. Becnel is an ISO 9001:2015 certified provider of rental tools and services primarily utilized in the decommissioning and maintenance of oil wells. 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 and rental capabilities.

The Becnel goodwill is primarily attributable to the workforce acquired, as well as operational synergies and other intangibles that do not qualify for separate recognition. The goodwill and intangible assets relating to the Becnel acquisition have preliminarily been allocated to both the Service and Distribution segment. Intangible assets related to the Becnel acquisition are being amortized for financial reporting purposes on an accelerated basis over the estimated useful life of up to eleven years and are deductible for tax purposes. Amortization of goodwill related to the Becnel acquisition is deductible for income tax purposes.

The total purchase price for Becnel was approximately \$49.9 million and will be up to \$17.5 million in cash and the issuance of our common stock valued at \$32.3 million. Pursuant to the Becnel agreement, the Company held back approximately \$2.5 million of the purchase price for certain potential post-closing adjustments. This includes \$0.5 million withheld for ordinary post-closing adjustments and \$2.0 million withheld that is subject to revenue target achievement.

Pursuant to the Becnel agreement, the purchase price is subject to reduction by \$2.0 million if certain revenue targets are not met through April 15, 2026. As of April 15, 2024 and June 29, 2024, the estimated fair value of this contingent consideration, classified as Level 3 in the fair value hierarchy, was approximately \$1.5 million. This amount was calculated using a Geometric Brownian motion distribution that was then used in a Monte Carlo simulation model. Assumptions used in the Monte Carlo simulation model included: 1) discount rate of 11.00%, 2) risk-free interest rate of 5.00%, 3) asset volatility of 30.00%, and 4) forecasted revenue. 50% of this contingent consideration is payable in cash and 50% of this contingent consideration is payable in 9,283 shares of Transcat common stock. The cash portion of the contingent consideration is classified as a liability and is recorded in other liabilities in the Consolidated Balance Sheets. The stock portion of the contingent consideration is classified as equity and is recorded in shareholders equity in the Consolidated Balance Sheets. The contingent consideration payout will either be \$0 or \$2.0 million depending on the revenue target achievement.

This cash portion of the contingent consideration is remeasured quarterly. If, as a result of remeasurement, the value of the cash portion of the contingent consideration changes, any charges or income will be included in the Company’s Consolidated Statements of Income. Due to the uncertainty with utilizing these significant unobservable inputs for this Level 3 fair value measurement, materially higher or lower fair value measurements may be recognized at subsequent remeasurement periods. The stock portion of the contingent consideration is remeasured quarterly. If, as a result of the measurement, the value of the stock portion of the contingent consideration changes, any changes will be included in the Consolidated Balance Sheets as a component of shareholders equity.

The purchase price allocation is subject to revision based upon our final review of tangible and intangible asset valuation assumptions, working capital adjustments, assets acquired, liabilities assumed and consideration transferred. The following is a summary of the preliminary purchase price allocation, in the aggregate, to the fair value, based on Level 3 inputs, of Becnel’s assets and liabilities acquired on April 15, 2024 (in thousands):

Goodwill		\$32,659
Intangible Assets – Customer Base & Contracts		7,200
Intangible Assets – Trademarks and Tradenames		840
		<u>40,699</u>
Plus:	Cash	197
	Accounts Receivable	3,041
	Property and Equipment	6,122
	Other Current Assets	95
Less:	Current Liabilities	(253)
Total Purchase Price		<u>\$ 49,901</u>

From the date of acquisition through the end of the first quarter of fiscal year 2025, Becnel has contributed revenue of \$2.7 million and operating income of \$0.6 million, which includes the negative impact of amortization of the acquired intangible assets.

Axiom: Effective August 8, 2023, Transcat purchased all of the outstanding capital stock of Axiom Test Equipment, Inc. (“Axiom”), a privately-held California rental provider of electronic test equipment to customers across the United States. 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 Distribution capabilities.

The Axiom goodwill is primarily attributable to the workforce acquired, as well as operational synergies and other intangibles that do not qualify for separate recognition. All the goodwill and intangible assets relating to the Axiom acquisition has been allocated to the Distribution segment. Intangible assets related to the Axiom acquisition are being

amortized for financial reporting purposes on an accelerated basis over the estimated useful life of up to twelve years and are not deductible for tax purposes. Amortization of goodwill related to the Axiom acquisition is not deductible for tax purposes.

The total purchase price for Axiom was approximately \$38.6 million \$38.7 million and was paid with \$10.0 million in cash and the issuance of our common stock valued at \$28.6 million. Pursuant to the asset purchase agreement, the Company held back approximately \$3.9 million of the purchase price for certain potential post-closing adjustments.

The purchase price allocation is subject to revision based upon our final review of tangible and intangible asset valuation assumptions, working capital adjustments, assets acquired, and liabilities assumed. The amount of goodwill changed since September 23, 2023 due to the finalization of inventory and property and equipment values. The following is a summary of the preliminary purchase price allocation, in the aggregate, to the fair value, based on Level 3 inputs, of Axiom's assets and liabilities acquired on August 8, 2023 (in thousands):

Goodwill	Goodwill	\$	26,707	Goodwill	\$ 26,758
Intangible Assets	—			Intangible Assets	—
Customer Base & Contracts	& Intangible Assets – Customer Base & Contracts		7,900	Customer Base & Contracts	7,900
			<u>34,607</u>		<u>34,658</u>
Plus:	Cash		37	Cash	161
	Accounts Receivable		962	Accounts Receivable	925
	Inventory		1,796	Inventory	1,796
	Other Current Assets		84	Other Current Assets	40
	Property and Equipment		4,965	Property and Equipment	4,965
Less:	Current Liabilities		(631)	Current Liabilities	(579)
	Deferred Tax Liability		(3,256)	Deferred Tax Liability	(3,242)
Total Purchase Price	Total Purchase Price	\$	<u>38,564</u>	Total Purchase Price	<u>\$ 38,724</u>

From During the date of acquisition through the end of the third first quarter of fiscal year 2024, 2025, Axiom has contributed revenue of \$4.3 \$2.6 million and operating income of \$0.4 million, which includes the negative impact of amortization of the acquired intangible assets.

SteriQual: Effective July 12, 2023, Transcat purchased all of the outstanding capital stock of SteriQual, Inc. ("SteriQual"), a Florida based provider of expert consulting services to pharmaceutical, biopharmaceutical, medical device and diagnostic equipment manufacturers. 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 SteriQual goodwill is primarily attributable to the workforce acquired, as well as operational synergies and other intangibles that do not qualify for separate recognition. All the goodwill and intangible assets relating to the SteriQual acquisition has been allocated to the Service segment. Intangible assets related to the SteriQual acquisition are being amortized for financial reporting purposes on an accelerated basis over the estimated useful life of up to fifteen years and are not deductible for tax purposes. Amortization of goodwill related to the SteriQual acquisition is not deductible for tax purposes.

The total purchase price for SteriQual was approximately \$4.3 million and was paid by the issuance of our common stock. Pursuant to the asset purchase agreement, the Company held back approximately \$0.9 million of the purchase price for certain potential post-closing adjustments. Pursuant to the asset purchase agreement, the purchase price is subject to reduction by \$0.5 million if certain revenue targets are not met through July 12, 2024. This contingent consideration is remeasured quarterly. If, as a result of

remeasurement, the value of the contingent consideration changes, any charges or income will be included in the Company's Consolidated Statements of Income. The purchase price was reduced to \$3.8 million as of December 23, 2023 as the Company recorded a receivable in the amount of \$0.5 million related to the revenue target contingent consideration. This receivable was recognized based on the facts and circumstances at the date of acquisition and is recognized as a component of goodwill and not recorded in the Consolidated Statement of Income.

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The purchase price allocation is subject to revision based upon our final review of intangible asset valuation assumptions, working capital adjustments, assets acquired, and liabilities assumed. The amount of goodwill changed since September 23, 2023 due to the accounts receivable balance as part of the contingent consideration. The following is a summary of the preliminary purchase price allocation, in the aggregate, to the fair value, based on Level 3 inputs, of SteriQual's assets and liabilities acquired on July 12, 2023 (in thousands):

Goodwill	Goodwill	\$ 2,163	Goodwill	\$ 2,175
			Intangible	
			Assets	–
Intangible Assets – Customer Base & Contracts	Intangible Assets – Customer Base & Contracts	1,062	Customer Base & Contracts	1,062
			Intangible	
			Assets	–
Intangible Assets – Covenant Not to Compete	Intangible Assets – Covenant Not to Compete	392	Covenant Not to Compete	392
			Intangible	
			Assets	–
Intangible Assets – Sales Backlog	Intangible Assets – Sales Backlog	95	Sales Backlog	95
		3,712		3,724
Plus:	Accounts Receivable	666	Accounts Receivable	666
Less:	Current Liabilities	(211)	Current Liabilities	(211)
	Deferred Tax Liability	(383)	Deferred Tax Liability	(395)
			Total	
Total Purchase Price	Total Purchase Price	\$ 3,784	Purchase Price	\$ 3,784

From During the date of acquisition through the end of the third first quarter of fiscal year 2024, 2025, SteriQual has contributed revenue of \$1.9 \$0.5 million and operating income loss of less than \$0.1 million, which includes the negative impact of amortization of the acquired intangible assets.

TIC-MS: Effective March 27, 2023, Transcat purchased all of the outstanding capital stock of TIC-MS, Inc. ("TIC-MS"), a Missouri 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 TIC-MS goodwill is primarily attributable to the workforce acquired, as well as operational synergies and other intangibles that do not qualify for separate recognition. All the goodwill and intangible assets relating to the TIC-MS acquisition has been allocated to the Service segment. Intangible assets related to the TIC-MS acquisition are being amortized for financial reporting purposes on an accelerated basis over the estimated useful life of up to fifteen years and are not deductible for tax purposes. Amortization of goodwill related to the TIC-MS acquisition is not deductible for tax purposes.

The total purchase price for TIC-MS was approximately \$9.8 million \$9.7 million and was paid with \$2.9 million in cash, including \$0.5 million placed in escrow for contingent consideration, certain post-closing adjustments and indemnification claims, if any, and the issuance of 77,387 shares of our common stock valued at \$6.9 million. Pursuant to the asset purchase agreement, the purchase price will be was subject to reduction by up to \$0.5 million if a key customer relationship is not retained through March 27, 2024. This contingent consideration is remeasured quarterly. If, as a result of remeasurement, the value of the contingent consideration changes, any charges or income will be

included key customer relationship was retained and, in the Company's Consolidated Statements first quarter of Income. As of fiscal year December 23, 2023, 2025 we continued to retain this key customer relationship. As a result, there has not been a receivable recognized relating to the \$0.5 million contingent consideration. in escrow was released and paid.

The following is a summary of the purchase price allocation, in the aggregate, to the fair value, based on Level 3 inputs, of TIC-MS's assets and liabilities acquired on March 27, 2023 (in thousands):

Goodwill	Goodwill	\$	7,253	Goodwill	\$ 7,218
Intangible Assets	Intangible Assets			Intangible Assets	—
Customer Base & Contracts	Intangible Assets – Customer Base & Contracts		2,303	Customer Base & Contracts	2,303
Intangible Assets	Intangible Assets – Covenant Not to Compete		132	Intangible Assets – Covenant Not to Compete	132
			9,688		9,653
Plus:	Accounts Receivable		499	Accounts Receivable	502
	Property and Equipment		356	Property and Equipment	356
Less:	Current Liabilities		(128)	Current Liabilities	(124)
	Deferred Tax Liability		(636)	Deferred Tax Liability	(712)
Total Purchase Price	Total Purchase Price	\$	9,779	Total Purchase Price	\$ 9,675

From During the date of acquisition through the end of the third first quarter of fiscal year 2024, 2025, TIC-MS has contributed revenue of \$2.7 million and operating income of \$1.1 million, which includes the negative impact of amortization of the acquired intangible assets.

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Elite: Effective February 2, 2023, Transcat acquired substantially all of the assets of Elite Calibration LLC ("Elite"), a California based provider of calibration services. This transaction aligned with a key component of the Company's acquisition strategy of targeting businesses that can leverage the Company's already existing operating infrastructure.

All the goodwill related to the Elite acquisition has been allocated to the Service segment. Amortization of goodwill related to the Elite acquisition is deductible for tax purposes. The goodwill is primarily attributable to the workforce acquired, as well as operational synergies and other intangibles that do not qualify for separate recognition. The total purchase price for the assets of Elite was approximately \$0.9 million, of which \$0.8 million was paid in cash. Pursuant to the asset purchase agreement, the Company held back \$0.1 million of the purchase price for certain potential post-closing adjustments. As of December 23, 2023, no amounts have been paid. The following is a summary of the purchase price allocation, in the aggregate, to the fair value, based on Level 3 inputs, of Elite's assets and liabilities acquired on February 2, 2023 (in thousands):

Goodwill		\$	820
Plus:	Accounts Receivable		62
Total Purchase Price		\$	882

Since this operation was integrated immediately into our existing operations, its separate contributed revenue and operating income is undeterminable.

Complete Calibrations: Effective September 28, 2022, Transcat purchased all of the outstanding capital stock of Galium Limited (d/b/a Complete Calibrations) ("Complete Calibrations"), an Irish company. 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.

All the goodwill related to the Complete Calibrations acquisition has been allocated to the Service segment. Amortization of goodwill related to the Complete Calibrations acquisition is not deductible for tax purposes. The goodwill is primarily attributable to the workforce acquired, as well as operational synergies and other intangibles that do not

qualify for separate recognition.

The total purchase price paid for Complete Calibrations was approximately \$1.2 million in cash. In connection with this transaction, the Company also entered into a Technology License Agreement with Calibration Robots Limited, an Irish company and related party to Complete Calibrations, for the use of their proprietary robotics in completing calibrations. The Technology License Agreement includes transactional royalties in the amount of 3 Euros (\$3.19) per calibration performed by technology covered under this license agreement, with a royalty term of up to ten years commencing from the earlier of (i) the date on which cumulative revenue earned from technology covered under this license agreement equals 0.75 million Euros (\$0.80 million), and (ii) March 28, 2024. In addition to the transactional royalties, as long as a key employee is employed by the Company, there is an annual royalty fee of 0.1 million Euros (\$0.11 million). For purposes of this paragraph, we used a conversion rate of 1.1014 to convert Euro to U.S. dollar as of December 23, 2023. As of December 23, 2023, the key employee is still employed by the Company.

The following is a summary of the purchase price allocation, in the aggregate, to the fair value, based on Level 3 inputs, of Complete Calibrations' assets and liabilities acquired on September 28, 2022 (in thousands):

Goodwill		\$	1,123
Plus:	Cash		10
	Inventory		44
Total Purchase Price		\$	1,177

During the firstnine months of fiscal year 2024, Complete Calibrations has contributed revenue of \$0.3 million and operating loss of less than \$0.1 million.

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e2b: Effective September 27, 2022, Transcat acquired substantially all of the assets of e2b Calibration ("e2b"), an Ohio 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 e2b goodwill is primarily attributable to the workforce acquired, as well as operational synergies and other intangibles that do not qualify for separate recognition. All the goodwill and intangible assets relating to the e2b acquisition has been allocated to the Service segment. Intangible assets related to the e2b acquisition are being amortized for financial reporting purposes on an accelerated basis over the estimated useful life of up to fifteen years and are deductible for tax purposes. Amortization of goodwill related to the e2b acquisition is deductible for tax purposes.

The total purchase price paid for the assets of e2b was approximately \$3.1 million in cash. Pursuant to the asset purchase agreement, the Company held back \$0.9 million of the purchase price in escrow for certain potential post-closing adjustments. During the third quarter of fiscal year 2023, \$0.6 million of the escrow was released to the sellers.

During the third quarter of fiscal year 2024, \$0.3 million was released to the sellers. As of December 23, 2023, there is no money remaining in escrow.

The following is a summary of the purchase price allocation, in the aggregate, to the fair value, based on Level 3 inputs, of e2b's assets and liabilities acquired on September 27, 2022 (in thousands):

Goodwill		\$	1,367
Intangible Assets – Customer Base & Contracts			746
Intangible Assets – Covenant Not to Compete			396
			2,509
Plus:	Accounts Receivable		361
	Other Current Assets		24
	Property and Equipment		326
Less:	Current Liabilities		(121)
Total Purchase Price		\$	3,099

During the firstnine months of fiscal year 2024,e2b has contributed revenue of \$2.6\$0.9 million and operating income of \$0.4 million, which includes the negative impact of amortization of the acquired intangible assets.

Alliance: Effective May 31, 2022, Transcat acquired substantially all of the assets of Charlton Jeffmont Inc., Raitz Inc. and Toolroom Calibration Inc. d/b/a Alliance Calibration ("Alliance"), an Ohio 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 Alliance goodwill is primarily attributable to the workforce acquired, as well as operational synergies and other intangibles that do not qualify for separate recognition. All the goodwill and intangible assets relating to the Alliance acquisition has been allocated to the Service segment. Intangible assets related to the Alliance acquisition are being amortized for financial reporting purposes on an accelerated basis over the estimated useful life of up to fifteen years and are deductible for tax purposes. Amortization of goodwill related to the Alliance acquisition is deductible for tax purposes.

The purchase price for Alliance was approximately \$4.7 million and was paid with \$4.0 million in cash and the issuance of 2,284 shares of our common stock valued at \$0.1 million. Pursuant to the asset purchase agreement, the Company held back \$0.5 million of the purchase price for certain potential post-closing adjustments, and the purchase price would have been subject to reduction by \$0.5 million if a key customer relationship was not retained. During the first quarter of fiscal year 2024, \$0.5 million of the holdback was released to the sellers.

The following is a summary of the purchase price allocation, in the aggregate, to the fair value, based on Level 3 inputs, of Alliance's assets and liabilities acquired on May 31, 2022 (in thousands):

Goodwill		\$	1,783
Intangible Assets – Customer Base & Contracts			2,320
Intangible Assets – Covenant Not to Compete			114
			<u>4,217</u>
Plus:	Accounts Receivable		343
	Property and Equipment		170
Less:	Current Liabilities		(27)
Total Purchase Price		\$	<u>4,703</u>

During the first nine months of fiscal year 2024, Alliance has contributed revenue of \$2.0 million and operating income of \$0.6 million, which includes the negative impact of amortization of the acquired intangible assets.

NEXA: Effective August 31, 2021, Transcat purchased all of the outstanding capital stock of Cal OpEx Limited (d/b/a NEXA Enterprise Asset Management), an Irish company, which owns all of the issued and outstanding capital stock of its U.S.-based subsidiary, Cal OpEx Inc., a Delaware corporation (collectively, "NEXA"). On September 11, 2023, the Company entered into an amendment (the "Amendment") to a Share Purchase Agreement dated August 31, 2021 (the "Purchase Agreement") with John Cummins and Ross Lane (the "Sellers") associated with the Company's purchase of all of the outstanding capital stock of NEXA. As described below, the Amendment changes the conditions necessary for the Sellers to receive potential earn-out payments, changes the lines of business included in the calculation of earnings before income taxes, depreciation and amortization ("EBITDA"), and changes the outside due date of any potential earn-out payments.

Pursuant to the Purchase Agreement, the Sellers were entitled to potential earn-out payments in an aggregate amount of up to \$7.5 million for the calendar years ending December 31, 2022, 2023, 2024, and 2025 (each, an "Earn-Out Year") if NEXA's consolidated gross revenue, as defined in the Purchase Agreement, equaled or exceeded 70% of the target revenue specified in the Purchase Agreement and NEXA's consolidated EBITDA percentage, as defined in the Purchase Agreement, equaled or exceeded 25% for a given earn-out year. The potential earn-out payment of up to \$0.4 million for the 2022 Earn-Out Year was not earned under the Purchase Agreement.

Pursuant to the Amendment, the Sellers are now entitled to potential earn-out payments in an aggregate amount of up to \$7.1 million for the remaining Earn-Out Years (2023, 2024 and 2025) if NEXA's consolidated EBITDA, as defined in the Amendment, equals or exceeds 70% of the target EBITDA specified in the Amendment for a given earn-out year. Pursuant to the Amendment, the definition of EBITDA was revised to include EBITDA from the Commissioning, Qualification and Validation business ("CQV") and incremental EBITDA from the SteriQual, Inc. business. The maximum earn-out payment will be received if NEXA's consolidated EBITDA equals or exceeds 150% of the target EBITDA specified in the Amendment. The earn-out payments, if any, will be paid in shares of common stock, calculated using the volume-weighted average closing price of the common stock for 30 consecutive trading days ending on the trading day that is two days prior to the date the earn-out payment is to be paid ("VWAP"). If the VWAP is less than \$45.07 per share, then the Company may pay the earn-out payment in cash in lieu of shares of common stock.

As of March 25, 2023, the estimated fair value for the total earn-out obligations under the Purchase Agreement, classified as Level 3 in the fair value hierarchy, was zero. As of September 23, 2023, the estimated fair value for the total earn-out obligations under the Amendment, classified as Level 3 in the fair value hierarchy, was approximately \$2.8 million. This amount was calculated using a Geometric Brownian motion distribution that was then used in a Monte Carlo simulation model. Assumptions used in the Monte Carlo simulation model included: 1) discount rate of 9.00%, 2) risk-free interest rate of 5.00%, 3) asset volatility of 25.00%, and 4) forecasted revenue and EBITDA. This contingent consideration is remeasured quarterly. If, as a result of remeasurement, the value of the contingent consideration changes, any charges or income will be included in the Company's Consolidated Statements of Income. Due to the uncertainty with utilizing these significant unobservable inputs for this Level 3 fair value measurement, materially higher or lower fair value measurements may be recognized at subsequent remeasurement periods. The Company recognized a non-cash expense of \$2.8 million, which was recorded in general and administrative expenses in its Consolidated Statement of Income for the quarter ended September 23, 2023. As of December 23, 2023, the estimated fair value of the total earn-out obligations under the Amendment was approximately \$2.9 million. The change in accrual is due to the actual results of the 2023 calendar Earn-Out Year and the accretion of the 2024 and 2025 Earn-Out Years. As a result, the Company recognized a non-cash expense of \$0.1 million, which was recorded in general and administrative expenses in its Consolidated Statement of Income for the quarter ended December 23, 2023. There were no material changes in assumptions that would impact the valuation as of December 23, 2023.

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 Becnel, Axion, SteriQual TIC-MS, Elite, Complete Calibrations, e2b and Alliance TIC-MS had occurred at the beginning of fiscal year 2023, 2024. 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)

(Unaudited)

(Unaudited)

(in thousands except per share information)

	Third Quarter Ended		Nine Months Ended		First Quarter Ended	
	December 23, 2023	December 24, 2022	December 23, 2023	December 24, 2022	June 29, 2024	June 24, 2023
Total Revenue	\$ 65,166	\$ 62,868	\$ 192,613	\$ 186,276	\$ 66,727	\$ 68,374
Net Income	\$ 3,348	\$ 1,383	\$ 6,548	\$ 5,801	\$ 4,420	\$ 3,790
Basic Earnings Per Share	\$ 0.39	\$ 0.18	\$ 0.81	\$ 0.77	\$ 0.49	\$ 0.50
Diluted Earnings Per Share	\$ 0.38	\$ 0.18	\$ 0.80	\$ 0.76	\$ 0.48	\$ 0.49

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 and at subsequent remeasurement periods, as applicable. As of **December 23, 2023** **June 29, 2024**, **\$1.0 million contingent consideration and \$2.7** **\$3.2** million of other holdback amounts unpaid are reflected in current liabilities on the Consolidated Balance Sheets and **\$2.4 million** **\$0.8 million** of contingent consideration and \$1.6 million of other holdback amounts unpaid are reflected in other liabilities on the Consolidated Balance Sheets. During the first quarter of fiscal year **nine** **2025**, **\$0.5 million** was paid to settle the earn-out obligation due to Cal OpEx Limited (d/b/a NEXA Enterprise Asset Management)("NEXA") for calendar 2023. **months** This amount was paid in 4,320 shares of Transcat common stock. During the first quarter of fiscal year 2024, **\$0.8 million of** **holdback amounts were paid**. During the first **nine** months of fiscal year 2023, no contingent consideration **or** **and \$0.3 million of** other holdback amounts were paid.

During the first **nine months** **quarter** of fiscal year **2024** **2025** and fiscal year **2023**, **2024**, acquisition costs of **\$0.7** **\$0.4** million and **\$0.1 million**, **\$0.2 million**, respectively, were recorded as incurred as general and administrative expenses in the Consolidated Statements of Income.

NOTE 6— STOCK OFFERING

On September 21, 2023, the Company entered into an underwriting agreement with Oppenheimer & Co. Inc., as representative of several underwriters, for the sale of common stock in an underwritten public offering at a public offering price of \$95.00 per share (the "Offering"). The Offering closed on September 25, 2023 and the Company sold an aggregate of 847,371 shares in the Offering, which included 110,526 shares issued upon the exercise by the underwriters of their over-allotment option, for total gross proceeds of \$80.5 million. Net proceeds received after direct costs in the Offering were \$75.2 million. A portion of the net proceeds from this Offering were used to pay off the Revolving Credit Facility in full.

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

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," "anticipate," "believes," "estimates," "expects," "potential," "outlook," "seek," "strategy," "target," "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, general economic conditions applicable to our business, inflationary impacts **the impact of widespread public health crises, and changes in interest rates**, the highly competitive nature of the industries in which we compete and in the nature of our two business segments, the concentration of Service segment customers in the life science and other FDA-regulated and industrial manufacturing industries, the significant competition we face in our Distribution segment, any impairment of our goodwill or intangible assets, tariffs and trade relations, our ability to successfully complete and integrate business acquisitions, cybersecurity risks, the risk of significant disruptions in our information technology systems, our ability to recruit, train and retain quality employees, skilled technicians and senior management, fluctuations in our operating results, our ability to achieve or maintain adequate utilization and pricing rates for our technical service providers, the prices we are able to charge for our services in our Service segment, competition in the rental market, our ability to adapt our technology, reliance on our enterprise resource planning system, technology updates, supply chain delays or disruptions, the risks related to current and future indebtedness, foreign currency rate fluctuations, risks related to our intellectual property, geopolitical events, adverse weather events or other catastrophes, **or** **natural disasters** **or** **widespread public health crises**, the volatility of our stock price, the relatively low trading volume of our common stock, changes in tax rates, changes in accounting standards, legal requirements and listing standards, and legal and regulatory risks related to our international operations. These risk factors and uncertainties are more fully described by us under the heading "Risk Factors" in our reports filed with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended **March 25, 2023** **March 30, 2024**. You should not place undue reliance on our forward-looking statements, which speak only as of the date they are made. 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no material changes to our critical accounting policies and estimates from the information provided in our Annual Report on Form 10-K for the fiscal year ended **March 25, 2023** **March 30, 2024**.

RESULTS OF OPERATIONS

Recent Developments

On September 25, 2023, we closed an underwritten public offering of our common stock for aggregate gross proceeds of \$80.5 million (the "Offering"). In the Offering, we sold an aggregate of 847,371 shares at \$95.00 per share. We received net proceeds of \$75.2 million in the Offering, a portion of which was used during the third quarter of fiscal year 2024 to repay in full our revolving credit facility. See "Liquidity and Capital Resources" below for more information.

Executive Summary

During our **third first** quarter of fiscal year **2024, 2025**, we had consolidated revenue of **\$65.2** **\$66.7** million. This represented an increase of **\$7.8** **\$6.1** million or **13.5%** **10.1%** versus the **third first** quarter of fiscal year **2023, 2024**. This increase was primarily due to **recently completed acquisitions**, strong demand in our Service segment's highly-regulated end markets and increased rental sales, which includes incremental revenue from **an acquisition completed in fiscal year 2024, acquisitions**. See Note 5 – "Business Acquisitions" to our unaudited consolidated financial statements in this report for more information about the impact of our acquisitions.

Our **third first** quarter of fiscal year **2024, 2025** gross profit was **\$20.9** **\$22.7** million. This was an increase of **\$4.5** **\$3.9** million or **27.7%** **21.1%** versus the **third first** quarter of fiscal year **2023, 2024**. In addition, consolidated gross margin was **32.1%** **34.0%**, an increase of **850** **310** basis points versus the **third first** quarter of fiscal year **2023, 2024**. This increase was largely the result of operating leverage on our fixed costs, increased technician productivity and accretive gross margins from our rental business.

Total operating expenses were **\$16.6** **\$17.6** million in the **third first** quarter of fiscal year **2024, 2025**, an increase of **\$3.4** **\$3.5** million or **25.7%** **24.8%** when compared to the prior **fiscal year third first** quarter. Included in operating expenses during the **third first** quarter of fiscal year **2024, 2025** were incremental operating expenses from the acquisitions of **Becnel, Axiom and SteriQual, TIC-MS**, investments in technology and higher incentive-based employee costs due to higher sales. As a percentage of total revenue, operating expenses were **25.5%** **26.3%** in the **third first** quarter of fiscal year **2024, 2025**, up **240** **310** basis points from **23.1%** **23.2%** in the **third first** quarter of fiscal year **2023, 2024**. Operating income was **\$4.3** **\$5.1** million, an increase of **\$1.1** **\$0.5** million, or **35.8%** **9.9%** and operating margin **increased** **decreased** from **5.5%** **7.7%** to **6.6%** **7.6%** in the **third first** quarter of fiscal year **2024, 2025**.

Net income was **\$3.3** **\$4.4** million in the **third first** quarter of fiscal year **2024, 2025** versus **\$1.6** **\$2.9** million in the **third first** quarter of fiscal year **2023, 2024**. The increase was primarily due to higher operating income and lower interest **expense associated with the repayment of our revolving credit facility, partially offset by higher provision for income taxes, expense**.

The following table presents, for the **third first** quarter **and for the first nine months** of fiscal year **2024, 2025** and fiscal year **2023, 2024**, the components of our Consolidated Statements of Income:

	(Unaudited) Third Quarter Ended		(Unaudited) Nine Months Ended		(Unaudited) First Quarter Ended	
	December 23, 2023	December 24, 2022	December 23, 2023	December 24, 2022	June 29, 2024	June 24, 2023
<i>As a Percentage of Total Revenue:</i>						
Service Revenue	63.7%	62.7%	65.1%	62.4%	65.6%	65.8%
Distribution Sales	36.3%	37.3%	34.9%	37.6%	34.4%	34.2%
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<i>Gross Profit Percentage:</i>						
Service Gross Profit	32.5%	30.0%	33.0%	31.5%	34.0%	32.5%
Distribution Gross Profit	31.5%	26.2%	29.2%	25.4%	33.9%	27.7%
Total Gross Profit	32.1%	28.6%	31.7%	29.2%	34.0%	30.9%

Selling, Marketing and Warehouse Expenses	11.5%	11.5%	11.1%	10.9%	11.7%	10.7%
General and Administrative Expenses	14.0%	11.6%	15.0%	12.2%	14.6%	12.5%
Total Operating Expenses	25.5%	23.1%	26.1%	23.0%	26.3%	23.2%
Operating Income	6.6%	5.5%	5.6%	6.2%	7.6%	7.7%
Interest and Other Expense, net	0.0%	1.8%	0.9%	1.0%		
Interest and Other (Income)/Expense, net					(0.2)%	1.4%
Income Before Income Taxes	6.6%	3.7%	4.7%	5.1%	7.8%	6.2%
Provision for Income Taxes	1.5%	0.9%	1.1%	1.0%	1.2%	1.3%
Net Income	5.1%	2.8%	3.6%	4.2%	6.6%	4.9%

FIRST QUARTER ENDED THIRD QUARTER ENDED DECEMBER 23, 2023 JUNE 29, 2024 COMPARED TO FIRST QUARTER ENDED THIRD QUARTER ENDED DECEMBER 24, 2022 JUNE 24, 2023 (dollars in thousands):

Revenue:

	Third Quarter Ended		Change		First Quarter Ended		Change	
	December 23,	December 24,			June 29,	June 24,		
	2023	2022	\$	%	2024	2023	\$	%
Revenue:								
Service	\$ 41,509	\$ 35,977	\$ 5,532	15.4%	\$ 43,778	\$ 39,853	\$ 3,925	9.8%
Distribution	23,657	21,425	2,232	10.4%	22,929	20,745	2,184	10.5%
Total	\$ 65,166	\$ 57,402	\$ 7,764	13.5%	\$ 66,707	\$ 60,598	\$ 6,109	10.1%

Total revenue was \$65.2 \$66.7 million, an increase of \$7.8 \$6.1 million, or 13.5% 10.1%, in our fiscal year 2024 third 2025 first quarter compared to the prior fiscal year third first quarter.

Service revenue, which accounted for 63.7% 65.6% and 62.7% 65.8% of our total revenue in the third first quarter of fiscal years 2024 2025 and 2023, 2024, respectively, increased \$5.5 million \$3.9 million or 15.4% 9.8% from the third first quarter of fiscal year 2023 2024 to the third first quarter of fiscal year 2024, 2025. This year-over-year increase included \$2.2 \$1.3 million in revenue from the acquisitions of TIC-MS, SteriQual and Axiom, Becnel, and also included organic revenue growth of 9.1% 6.4% driven by strong end-market demand and continued market share gains.

Our fiscal years 2024 2025 and 2023 2024 Service revenue growth, in relation to prior fiscal year quarter comparisons, was as follows:

	FY 2024			FY 2023			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Service Revenue Growth	15.4 %	17.5 %	17.6 %	14.7 %	19.0 %	19.4 %	22.9 %

The growth in Service segment revenue during the third quarter of fiscal year 2024 versus the third quarter of fiscal year 2023 reflected both organic growth and increased revenue from the acquisitions of TIC-MS, SteriQual and Axiom.

	FY 2025		FY 2024			
	Q1	Q4	Q3	Q2	Q1	
Service Revenue Growth	9.8 %	17.5 %	15.4 %	17.5 %	17.6 %	

Within any fiscal year, while we add new customers, we also have customers from the prior fiscal 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 trailing twelve-month information provides a better indication of the progress of this segment.

The following table presents the trailing twelve-month Service segment revenue for the first **second and third** quarter of fiscal year **2024** **2025** and each quarter in fiscal year **2023** **2024** as well as the trailing twelve-month revenue growth as a comparison to that of the prior fiscal year period:

	FY 2024			FY 2023				FY 2025	FY 2024				
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q1	Q4	Q3	Q2	Q1	
Trailing Twelve-Month:													
Service Revenue	\$ 162,556	\$ 157,024	\$ 150,860	\$ 144,883	\$ 139,787	\$ 134,047	\$ 128,324	\$ 173,450	\$ 169,525	\$ 162,556	\$ 157,024	\$ 150,860	
Service Revenue Growth	16.3 %	17.1 %	17.6 %	18.8 %	20.2 %	20.9 %	21.2 %	15.0 %	17.0 %	16.3 %	17.1 %	17.6 %	

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 the first **second and third** quarter of fiscal year **2024** **2025** and for each quarter during fiscal year **2023** **2024**:

	FY 2024			FY 2023			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Percent of Service Revenue:							
In-House	86.2 %	85.8 %	87.3 %	86.9 %	86.2 %	86.2 %	85.4 %
Outsourced	12.6 %	13.0 %	11.6 %	11.9 %	12.6 %	12.6 %	13.2 %
Freight Billed to Customers	1.2 %	1.2 %	1.1 %	1.2 %	1.2 %	1.2 %	1.4 %
	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

	FY 2025		FY 2024		
	Q1	Q4	Q3	Q2	Q1
Percent of Service Revenue:					
In-House	86.9 %	87.0 %	86.2 %	85.8 %	87.3 %
Outsourced	12.0 %	11.9 %	12.6 %	13.0 %	11.6 %
Freight Billed to Customers	1.1 %	1.1 %	1.2 %	1.2 %	1.1 %
	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Our Distribution sales accounted for **36.3%** **34.4%** of our total revenue in the **third first** quarter of fiscal year **2024** **2025** and **37.3%** **34.2%** of our total revenue in the **third first** quarter of fiscal year **2023** **2024**. During the **third first** quarter of fiscal year **2024** **2025**, Distribution segment sales were **\$23.7 million** **\$22.9 million** which was an increase of **10.4%** **10.5%** or **\$2.2 million** **million**. This increase was due to **\$2.9** **\$4.4** million of incremental revenue from the **acquisition** **acquisitions** of Axiom **and Becnel** offset by slower demand for our non-rental products.

The following table presents the quarterly historical trend of Distribution sales in fiscal years **2024** **2025** and **2023** **2024** compared to the prior year fiscal quarter:

	FY 2024			FY 2023			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1

Distribution Sales Growth (Decline)	10.4 %	0.9 %	(0.2)%	5.1 %	3.7 %	1.6 %	2.7 %
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	FY 2025		FY 2024			
	Q1		Q4	Q3	Q2	Q1
Distribution Sales Growth (Decline)	10.5 %		8.4 %	10.4 %	0.9 %	(0.2)%

The Distribution segment sales increase for the **third first** quarter of fiscal year **2024 2025** versus the **third first** quarter of fiscal year **2023 2024** was due to sales from the **acquisition acquisitions** of **Axiom**, **Axiom** and **Becnel**.

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. Product backorders are the total dollar value of orders received for which revenue has not yet been recognized. 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. Management uses pending product shipments and backorders as measures of our future business performance and financial performance within the distribution segment.

The following table presents our total pending product shipments and the percentage of total pending product shipments that were backorders at the end of the first **second** and **third** quarter of fiscal year **2024 2025** and each quarter of fiscal year **2023 2024**:

	FY 2024			FY 2023				FY 2025	FY 2024				
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q1	Q4	Q3	Q2	Q1	
Total Pending Product Shipments	\$ 4,652	\$ 6,332	\$ 7,109	\$ 8,101	\$ 9,543	\$ 9,116	\$ 9,034	\$ 4,713	\$ 5,079	\$ 4,652	\$ 6,332	\$ 7,109	
% of Pending Product Shipments that were Backorders	82.0 %	87.4 %	85.0 %	84.8 %	78.4 %	80.8 %	78.1 %	78.4 %	88.8 %	82.0 %	87.4 %	85.0 %	

Our total pending product shipments at the end of the **third first** quarter of fiscal year **2024 2025** were \$4.7 million, a decrease of **\$4.9 \$2.4** million versus the end of the **third first** quarter of fiscal year **2023 2024** and a decrease of **\$3.5 \$0.4** million since **March 25, 2023 March 30, 2024**. The decrease in pending product shipments and backorders was a result of improved fulfillment of existing orders.

Gross Profit:

	Third Quarter Ended		Change		First Quarter Ended		Change	
	December 23,	December 24,			June 29,	June 24,		
	2023	2022	\$	%	2024	2023	\$	%
Gross Profit:								
Service	\$ 13,494	\$ 10,793	\$ 2,701	25.0 %	\$ 14,883	\$ 12,971	\$ 1,912	14.7 %
Distribution	7,442	5,607	1,835	32.7 %	7,772	5,739	2,033	35.4 %
Total	\$ 20,936	\$ 16,400	\$ 4,536	27.7 %	\$ 22,655	\$ 18,710	\$ 3,945	21.1 %

Total gross profit for the **third first** quarter of fiscal year 2025 was \$22.7 million, an increase of \$3.9 million or 21.1% versus the first quarter of fiscal year 2024. Total gross margin was 34.0% in the first quarter of fiscal year 2025, up from 30.9% in the first quarter of fiscal year 2024, was \$20.9 million, an increase of \$4.5 million or 27.7% versus the third quarter of fiscal year 2023. Total gross margin was 32.1% in the third quarter of fiscal year 2024, up from 28.6% in the third quarter of fiscal year 2023, a **350 310** basis point increase.

Service gross profit in the **third first** quarter of fiscal year **2024 2025** increased **\$2.7 \$1.9** million, or **25.0 % 14.7 %**, from the **third first** quarter of fiscal year **2023 2024**. Service gross margin was **32.5 % 34.0 %** in the **third first** quarter of fiscal year **2024, 2025**, a **250 150** basis point increase versus the **third 32.5 %** in the first quarter of fiscal year **2023, 2024**. This increase in **Service** gross margin was the result of increased revenue, which allows us to leverage our fixed-costs, and **continued** increases in technician **productivity, productivity and automation**.

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

	FY 2024			FY 2023			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Service Gross Margin	32.5 %	34.0 %	32.5 %	34.0 %	30.0 %	32.6 %	32.0 %

	FY 2025		FY 2024			
	Q1	Q4	Q3	Q2	Q1	
Service Gross Margin	34.0 %	35.7 %	32.5 %	34.0 %	32.5 %	

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. In general, our Distribution gross margin can vary based upon the mix of products sold, price discounting, and 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 2024			FY 2023			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Distribution Gross Margin	31.5 %	28.3 %	27.7 %	25.2 %	26.2 %	24.9 %	25.0 %

	FY 2025		FY 2024			
	Q1	Q4	Q3	Q2	Q1	
Distribution Gross Margin	33.9 %	30.3 %	31.5 %	28.3 %	27.7 %	

Distribution segment gross margin was **31.5%** **33.9%** in the **third first quarter of fiscal year 2025 versus 27.7% in the first quarter of fiscal year 2024, versus 26.2% in the third quarter of fiscal year 2023, a 530 620** basis point increase. The increase in **segment Distribution** gross margin was **primarily** due to increased **margins sales** from **higher-margin rental revenue, sales**, which now includes **the acquisitions of Axiom and a favorable mix of higher margin products sold. Becnel.**

Operating Expenses:

	Third Quarter Ended		Change		First Quarter Ended		Change	
	December 23,	December 24,			June 29,	June 24,		
	2023	2022	\$	%	2024	2023	\$	%
Operating Expenses:								
Selling, Marketing and Warehouse	\$ 7,519	\$ 6,595	\$ 924	14.0 %	\$ 7,801	\$ 6,469	\$ 1,332	20.6 %
General and Administrative	9,123	6,642	2,481	37.4 %	9,755	7,601	2,154	28.3 %
Total	\$ 16,642	\$ 13,237	\$ 3,405	25.7 %	\$ 17,556	\$ 14,070	\$ 3,486	24.8 %

Total operating expenses were **\$16.6** **\$17.6** million in the **third first** quarter of fiscal year **2024 2025** versus **\$13.2** **\$14.1** million during the **third first** quarter of fiscal year **2023, 2024**. The year-over-year increase in selling, marketing and warehouse expenses is due to increased expenses related to recent acquisitions and higher incentive-based employee costs due to higher sales. The increase in general and administrative expenses includes incremental expenses related to acquired companies, increased payroll costs for new employees and continued investments in technology.

As a percentage of total revenue, operating expenses were 25.5% 26.3% in the third first quarter of fiscal year 2025 and 23.2% in the first quarter of fiscal year 2024, and 23.1% in the third quarter of fiscal year 2023, an increase of 240 310 basis points.

Income Taxes:

	Third Quarter Ended		Change	
	December 23,	December 24,	\$	%
	2023	2022		
Provision for Income Taxes	\$ 923	\$ 523	\$ 400	76.5 %

	First Quarter Ended		Change	
	June 29,	June 24,	\$	%
	2024	2023		
Provision for Income Taxes	\$ 820	\$ 813	\$ 7	0.9 %

Our effective tax rate for the third first quarter of fiscal years 2025 and 2024 was 15.7% and 2023 was 21.6% and 24.6%, respectively. The increase in the tax provision is due to impacted by higher operating income and lower interest expense associated with the repayment of our revolving credit facility, expense. The decrease in effective tax rate is due to the mix of net income by country, increase in our discrete items. Our quarterly 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 the third first quarter of fiscal years 2025 and 2024 was \$0.6 million and 2023 was less than \$0.1 million, million, respectively.

Net Income:

	Third Quarter Ended		Change	
	December 23,	December 24,	\$	%
	2023	2022		
Net Income	\$ 3,348	\$ 1,601	\$ 1,747	109.1 %

	First Quarter Ended		Change	
	June 29,	June 24,	\$	%
	2024	2023		
Net Income	\$ 4,408	\$ 2,949	\$ 1,459	49.5 %

Net income for the third first quarter of fiscal year 2024 2025 increased from the third first quarter of fiscal year 2023 2024 primarily due to higher operating income and lower interest expense associated with the repayment of our revolving credit facility, partially offset by a higher provision for income taxes, expense.

Adjusted EBITDA:

Total Adjusted EBITDA, a non-GAAP measure, for the third first quarter of fiscal year 2024 2025 was \$9.1 \$10.2 million, an increase of \$2.5 \$1.7 million or 38.5% 20.4% versus the third first quarter of fiscal year 2023, 2024. See "Non-GAAP Financial Measures" below for a description of the non-GAAP measures we use and a reconciliation to the most directly comparable GAAP measures. As a percentage of revenue, Adjusted EBITDA increased to 14.0% 15.3% for the third first quarter of fiscal year 2024 2025 from 11.5% 14.0% for the third first quarter of fiscal year 2023, 2024. The increase in Adjusted EBITDA during the third first quarter of fiscal year 2024 2025 was primarily driven by increases in operating income, depreciation and amortization expense and non-cash stock compensation.

NINE MONTHS ENDED DECEMBER 23, 2023 COMPARED TO NINE MONTHS ENDED DECEMBER 24, 2022(dollars in thousands):

Revenue:

(dollars in thousands)	Nine Months Ended		Change	
	December 23,	December 24,		

	2023	2022	\$	%
Revenue:				
Service	\$ 122,793	\$ 105,120	\$ 17,673	16.8 %
Distribution	65,775	63,382	2,393	3.8 %
Total	\$ 188,568	\$ 168,502	\$ 20,066	11.9 %

Service revenue, which accounted for 65.1% and 62.4% of our total revenue in the first nine months of fiscal years 2024 and 2023, respectively, increased \$17.7 million, or 16.8%, from the first nine months of fiscal year 2023 to the first nine months of fiscal year 2024. This year-over-year increase included \$7.1 million of incremental revenue from the acquisitions of TIC-MS, SteriQual and Axiom, and also included organic revenue growth of 10.0% driven by strong end-market demand and continued market share gains. Distribution revenue, which accounted for 34.9% and 37.6% of our total revenue in the first nine months of fiscal years 2024 and 2023, respectively, increased \$2.4 million, or 3.8%, from the first nine months of fiscal year 2023 to the first nine months of fiscal year 2024. This year-over-year increase is primarily due to \$4.2 million of incremental revenue from the acquisition of Axiom offset by slower demand for our non-rental products.

Gross Profit:

	Nine Months Ended		Change	
(dollars in thousands)	December 23, 2023	December 24, 2022	\$	%
Gross Profit:				
Service	\$ 40,549	\$ 33,115	\$ 7,434	22.4 %
Distribution	19,222	16,090	3,132	19.5 %
Total	\$ 59,771	\$ 49,205	\$ 10,566	21.5 %

Total gross profit for the first nine months of fiscal year 2024 was \$59.8 million, an increase of \$10.6 million or 21.5% versus the first nine months of fiscal year 2023. Total gross margin was 31.7% in the first nine months of fiscal year 2024, up from 29.2% in the first nine months of fiscal year 2023, a 250 basis point increase. This increase in gross margin was primarily due to increased revenue in our Service segment, which allows us to leverage our fixed costs, continued technician productivity improvements, and a favorable sales mix driven by increases in rental sales in the Distribution segment.

Operating Expenses:

	Nine Months Ended		Change	
(dollars in thousands)	December 23, 2023	December 24, 2022	\$	%
Operating Expenses:				
Selling, Marketing and Warehouse	\$ 20,844	\$ 18,315	\$ 2,529	13.8 %
General and Administrative	28,350	20,497	7,853	38.3 %
Total	\$ 49,194	\$ 38,812	\$ 10,382	26.7 %

Total operating expenses were \$49.2 million in the first nine months of fiscal year 2024 versus \$38.8 million during the first nine months of fiscal year 2023, an increase of \$10.4 million or 26.7%. The year-over-year increase in selling, marketing and warehouse expenses is due to increased expenses related to recent acquisitions and higher incentive-based employee costs due to higher sales. The increase in general and administrative expenses includes the non-cash charge related to the NEXA earn-out, incremental expenses related to acquired companies, increased payroll costs for new employees and continued investments in technology.

As a percentage of total revenue, operating expenses were 26.1% in the first nine months of fiscal year 2024 and 23.0% in the first nine months of fiscal year 2023, an increase of 310 basis points.

Income Taxes:

	Nine Months Ended		Change	
(dollars in thousands)	December 23, 2023	December 24, 2022	\$	%
Provision for Income Taxes	\$ 2,078	\$ 1,631	\$ 447	27.4 %

Our effective tax rate for the first nine months of fiscal years 2024 and 2023 was 23.5% and 18.8%, respectively. The increase in the effective rate and tax provision is due to the discrete tax treatment of the non-cash charge related to the NEXA earn-out. 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 the first nine months of fiscal years 2024 and 2023 was \$0.7 million and \$0.5 million, respectively.

Net Income:

	Nine Months Ended	Change
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	December 23, 2023	December 24, 2022	\$	%
Net Income	\$ 6,757	\$ 7,030	\$ (273)	(3.9)%

Net income for the first nine months of fiscal year 2024 was \$6.8 million, a decrease of \$0.3 million versus the first nine months of fiscal year 2023. The year over year decrease in net income was primarily due to flat operating income and a higher provision for income taxes.

Adjusted EBITDA:

Total Adjusted EBITDA, a non-GAAP measure, for the first nine months of fiscal year 2024 was \$26.9 million, an increase of \$5.5 million or 25.7% versus the first nine months of fiscal year 2023. See "Non-GAAP Financial Measures" below for a description of the non-GAAP measures we use and a reconciliation to the most directly comparable GAAP measures. As a percentage of revenue, Adjusted EBITDA increased to 14.3% for the first nine months of fiscal year 2024 from 12.7% for the first nine months of fiscal year 2023. The increase in Adjusted EBITDA during the first nine months of fiscal year 2024 was primarily driven by the NEXA earn-out adjustment and increases in depreciation and amortization expense and non-cash stock compensation, **transaction expenses**.

Non-GAAP Financial Measures

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, acquisition related transaction expenses, **non-cash loss on sale of building**, and **restructuring other** 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, but 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.

(dollars in thousands)	Third Quarter Ended		Nine Months Ended	
	December 23, 2023	December 24, 2022	December 23, 2023	December 24, 2022
Net Income	\$ 3,348	\$ 1,601	\$ 6,757	\$ 7,030
+ Interest (Income) Expense	(266)	726	1,438	1,636
+ Other Expense	289	313	304	96
+ Tax Provision	923	523	2,078	1,631
Operating Income	4,294	3,163	10,577	10,393
+ Depreciation & Amortization	3,783	2,824	9,842	8,243
+ Transaction Expense	78	96	591	126
+ Acquisition Earn-Out Adjustment	87	-	2,887	-
+ Other (Expense)	(289)	(313)	(304)	(96)
+ Noncash Stock Compensation	1,167	815	3,338	2,757
Adjusted EBITDA	\$ 9,120	\$ 6,585	\$ 26,931	\$ 21,423

(dollars in thousands)	First Quarter Ended	
	June 29, 2024	June 24, 2023
Net Income	\$ 4,408	\$ 2,949
+ Interest (Income) Expense	(260)	814
+ Other Expense	131	64
+ Tax Provision	820	813
Operating Income	5,099	4,640

+ Depreciation & Amortization	4,113	2,790
+ Transaction Expense	434	185
+ Other (Expense)	(131)	(64)
+ Noncash Stock Compensation	697	930
Adjusted EBITDA	\$ 10,212	\$ 8,481

Adjusted Diluted Earnings Per Share

In addition to reporting Diluted Earnings Per Share, a GAAP measure, we present Adjusted Diluted Earnings Per Share (net income plus acquisition related amortization expense, acquisition related transaction expenses, acquisition related stock-based compensation and acquisition amortization of backlog and restructuring expense; backlog; divided by the average diluted shares outstanding during the period), which is a non-GAAP measure. Our management believes Adjusted Diluted Earnings Per Share is an important measure of our operating performance because it provides a basis for comparison of our business operations between current, past and future periods by excluding items that we do not believe are indicative of our core operating performance.

Adjusted Diluted Earnings Per Share 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 Diluted Earnings Per Share and, therefore, should not be used in isolation of, but in conjunction with, the GAAP measure. Adjusted Diluted Earnings Per Share, 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.

	Third Quarter Ended		Nine Months Ended		First Quarter Ended	
	December 23,	December 24,	December 23,	December 24,	June 29,	June 24,
	2023	2022	2023	2022	2024	2023
Net Income	\$ 3,348	\$ 1,601	\$ 6,757	\$ 7,030	\$ 4,408	\$ 2,949
+ Amortization of Intangible Assets	1,674	1,180	4,183	3,411	1,749	1,093
+ Acquisition Amortization of Backlog	24	-	43	-	24	-
+ Acquisition Deal Costs	343	254	1,312	792	434	367
+ Acquisition Stock Expense					234	-
+ Income Tax Effect @ 25%	(532)	(359)	(1,406)	(1,051)	(610)	(365)
+ Acquisition Earn-Out Adjustment	87	-	2,887	-		
Adjusted Net Income	4,944	2,676	13,776	10,182	6,239	4,044
Average Diluted Shares Outstanding	8,752	7,666	8,187	7,644	9,196	7,762
Diluted Earnings Per Share – GAAP	\$ 0.38	\$ 0.21	\$ 0.83	\$ 0.92	\$ 0.48	\$ 0.38
Adjusted Diluted Earnings Per Share	\$ 0.56	\$ 0.35	\$ 1.68	\$ 1.33	\$ 0.68	\$ 0.52

LIQUIDITY AND CAPITAL RESOURCES

We expect that foreseeable liquidity and capital resource requirements will be met through cash and cash equivalents, anticipated cash flows from operations and borrowings from our revolving credit facility. We believe that these sources of financing will be adequate to meet our future requirements.

Under our Second Amended and Restated Credit Facility Agreement (the "Credit Agreement") with Manufacturers and Traders Trust Company ("M&T"), we have access to a revolving credit commitment (the "Revolving Credit Commitment") of \$80.0 million through June 2026, with a letter of credit subfacility of \$10.0 million. Our 2018 term loan, with an original principal amount of \$15.0 million (the "2018 Term Loan"), is also provided for under the Credit Agreement.

The Credit Agreement allows us to use up to \$50.0 million under the Revolving Credit Commitment for acquisitions in any single fiscal year. The Credit Agreement restricts our ability to complete acquisitions of businesses with a principal place of business located in the United Kingdom or the European Union to an aggregate purchase price of \$40.0

million during the term of the Credit Agreement, if the acquisition is financed directly or indirectly with the Revolving Credit Commitment. Under the Credit Agreement, we may make restricted payments up to \$25.0 million in the aggregate over the term of the Credit Agreement and \$10.0 million in any single fiscal year to repurchase shares and pay dividends.

Effective July 1, 2023, interest on outstanding borrowings under the revolving credit facility accrue, at our election, at either the variable Daily Simple SOFR or a fixed rate for a designated period at the SOFR corresponding to such period (subject to a 0.25% floor), in each case, plus a margin. 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 our calculated leverage ratio. Our interest rate for the revolving credit facility for the first nine months of fiscal year 2024 ranged from 6.4% to 7.1%. Interest on outstanding borrowings under the 2018 Term Loan accrue at a fixed rate of 3.90% over the term of the loan.

The Credit Agreement has certain covenants with which we must comply, including a fixed charge ratio covenant, which prohibits our fixed charge coverage ratio from being less than 1.15 to 1.00, and a leverage ratio covenant, which prohibits our leverage ratio from exceeding 3.00 to 1.00. We were in compliance with all loan covenants and requirements during the first nine months of fiscal year 2024, 2025. Our leverage ratio, as defined in the Credit Agreement, was 0.12 0.08 at December 23, 2023 June 29, 2024, compared with 1.60 0.10 at March 25, 2023 March 30, 2024.

As of December 23, 2023 June 29, 2024, \$80.0 million was available for borrowing under the revolving credit facility. As of December 23, 2023, June 29, 2024, there were no amounts outstanding under the revolving credit facility. After the closing of the Offering, we used approximately \$50.0 million of the net proceeds to repay in full the amounts outstanding under the revolving credit facility. During the first nine months quarter of fiscal year 2025, we used \$16.0 million, drawn from cash and cash equivalents on hand for a business acquisition. During the first quarter of fiscal year 2024, and 2023, we used \$12.9 million and \$4.0 million, respectively, \$2.9 million, drawn from the revolving credit facility for a business acquisitions. acquisition.

As of December 23, 2023 June 29, 2024, \$4.7 \$3.6 million was outstanding on the 2018 Term Loan, of which \$2.3 \$2.4 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.

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

	Nine Months Ended		Three Months Ended	
	December 23,	December 24,	June 29,	June 24,
	2023	2022	2024	2023
Cash Provided by (Used in):				
Operating Activities	\$ 26,889	\$ 13,975	\$ 8,924	\$ 7,536
Investing Activities	\$ (22,031)	\$ (15,445)	\$ (4,094)	\$ (5,636)
Financing Activities	\$ 29,076	\$ 782	\$ (1,935)	\$ (859)

Operating Activities: Net cash provided by operations operating activities was \$26.9 \$8.9 million during the first nine months quarter of fiscal year 2024 2025 compared to \$14.0 \$7.5 million of net cash provided by operating activities during the first nine months quarter of fiscal year 2023, 2024. The year-over-year increase in cash provided by operations operating activities was primarily the result of changes in net working capital (defined as current assets less current liabilities). The significant working capital fluctuations were as follows:

- Receivables: Accounts receivable decreased \$1.4 \$0.3 million during the first nine months quarter of fiscal year 2024 2025 inclusive of \$2.6 \$3.1 million of accounts receivable acquired during the period. During the first nine months quarter of fiscal year 2023, 2024, accounts receivable increased \$2.0 million decreased \$2.3 million inclusive of \$0.7 \$0.5 million of accounts receivable acquired during the period. The year-over-year variation reflects changes in the timing of collections. The following table illustrates our "days sales outstanding" as of December 23, 2023 June 29, 2024 and December 24, 2022 June 24, 2023 (dollars in thousands):

December 23,	December 24,	June 29,	June 24,
2023	2022	2024	2023

Net Sales, for the last two fiscal months	\$	45,501	\$	40,088	\$47,789	\$43,430
Accounts Receivable, net	\$	43,307	\$	37,702	\$48,156	\$42,356
Days Sales Outstanding		57		59	63	61

- **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 \$0.8 increased \$0.6 million during the first nine months quarter of fiscal year 2024 inclusive of \$1.8 million of inventory acquired during the period. 2025. Our inventory balance increased decreased by \$4.2 \$1.8 million during the first nine months quarter of fiscal year 2023 2024 due to strategic inventory purchases during the first nine three months of the prior fiscal year.
- **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 decreased \$4.5 increased \$1.5 million during the first nine months quarter of fiscal year 2024, 2025. Accounts payable decreased \$0.3 \$1.2 million during the first nine months quarter of fiscal year 2023, 2024. The variances are largely due to the timing of inventory and capital expenditures 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 changes in expected performance levels, the performance measurement period, and timing of payments to employees. During the first nine months quarter of fiscal year 2024, 2025, accrued compensation and other current liabilities increased decreased by \$5.5 \$4.1 million, inclusive of \$4.0 \$0.1 million from assumed liabilities, contingent consideration and purchase price holdbacks from acquisition transactions. During the first nine months quarter of fiscal year 2023, 2024, accrued compensation and other current liabilities decreased by \$2.4 \$0.9 million. The change from the first nine months quarter of fiscal year 2023 2024 was largely due to the inclusion of the acquisition related transactions, partially offset by the annual payment of incentive based compensation accruals.
- **Income Taxes Payable:** In any given period, net working capital may be affected by the timing and amount of income tax payments. During the first nine months quarter of fiscal years 2024 and 2023, year 2025 income taxes payable remained flat, increased by \$0.8 million. During the first quarter of fiscal year 2024, income taxes payable increased by \$0.6 million.

Investing Activities: During the first nine months quarter of fiscal years 2024 2025 and 2023, 2024, we invested \$9.1 \$3.7 million and \$7.1 \$2.8 million, respectively, in capital expenditures that was used primarily for customer-driven expansion of Service segment capabilities and our rental business.

During the first nine months quarter of fiscal years 2024 2025 and 2023, 2024, we used \$12.9 million \$16.0 million and \$8.3 \$2.9 million, respectively, for business acquisitions.

During the first nine months quarter of fiscal year 2024, 2025, we paid \$0.8 \$0.5 million of other holdback amounts of contingent consideration relating to business acquisitions. During the first nine months quarter of fiscal year 2023, no contingent consideration or 2024, we paid \$0.3 million of other holdback amounts were paid holdbacks related to business acquisitions.

Financing Activities: During the first nine months quarter of fiscal year 2024, \$75.7 2025, \$0.3 million in cash was generated from the issuance of common stock, net of direct costs of the Offering. stock. In addition, we used \$42.7 million to repay our revolving line of credit, \$1.7 \$0.6 million for scheduled repayments of our term loan and \$2.2 million \$1.6 million for the "net" awarding of certain share awards to cover employee tax-withholding obligations for share award and stock option activity in fiscal year 2025, which are shown as a repurchase of shares of our common stock.

During the first quarter of fiscal year 2024, \$0.2 million in cash was generated from the issuance of common stock. In addition, we used \$0.6 million for scheduled repayments of our term loan, \$0.2 million to repay our revolving line of credit and \$0.3 million for the "net" awarding of certain share awards to cover employee tax-withholding obligations for share award and stock option activity in fiscal year 2024, which are shown as a repurchase of shares of our common stock.

During the first nine months of fiscal year 2023, \$2.3 million was borrowed from our revolving line of credit and \$0.5 million in cash was generated from the issuance of common stock. In addition, we used \$1.6 million for scheduled repayments of our term loan and \$0.4 million for the "net" awarding of certain share awards to cover employee tax-withholding obligations for share award and stock option activity in the quarter, which are shown as a repurchase of shares of our common stock.

OUTLOOK

We are proud of our dedicated team, which has consistently delivered exceptional results through various economic cycles as can be seen over the past decade and a half of profitable growth. During this fiscal year, we expect organic Service revenue growth in the high-single digit to low double-digit range and gross margin expansion. Automation of our calibration processes and overall process improvement will be key enablers to future margin expansion in the Service segment. We believe the Service segment has substantial runway ahead for growth, both organically and through acquisition. Our robust and diverse acquisition pipeline enables strategic, accretive acquisitions that drive synergistic growth opportunities and will be a key component of our future strategy. We believe our unique value proposition drives a sustainable competitive advantage in the highly regulated markets that we serve, particularly the Life Science, Aerospace, and Defense markets, along with a growing Rentals business. We have expect another year of organic Service revenue growth in the high single-digit to low double-digit range when normalized for the extra week in fiscal 2024 and gross margin expansion. Automation of our calibration processes and overall process improvement will continue to be key enablers of future margin expansion. We will continue to leverage our expertise and proven track record of successful acquisitions to drive synergistic growth opportunities with a long history sharp focus on integration. Our robust and diverse acquisition pipeline enables strategic, accretive acquisitions that will be a key component of generating sustainable value for our shareholders and providing a dynamic, rewarding workplace for our team. go-forward strategy.

We expect our income tax rate to range between 24% and 26% for full fiscal year 2024, 2025. This estimate includes Federal, various state, Canadian and Irish income taxes and reflects the discrete tax accounting associated with share-based payment awards.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATES

Our exposure to changes in interest rates results from our borrowing activities. During the first quarter of fiscal year 2025, we had no borrowings under our revolving credit facility. In the event interest rates were to move by 1%, our yearly interest expense would increase or decrease by approximately \$0.5 million \$0.4 million assuming our average borrowing levels during the first nine months borrowings of fiscal year 2024 remained constant approximately \$40 million under the our revolving credit facility. As of December 23, 2023 June 29, 2024, \$80.0 million was available for borrowing under the revolving credit facility. As of December 23, 2023 June 29, 2024, there were no amounts outstanding under the revolving credit facility. As described above under "Liquidity and Capital Resources," we also have a \$15.0 million (original principal) term loan. The 2018 Term Loan is considered a fixed interest rate loan. As of December 23, 2023 June 29, 2024, \$4.7 \$3.6 million was outstanding under the 2018 Term Loan and was included in long-term debt and current portion of long-term debt on the Consolidated Balance Sheets. The 2018 Term Loan requires total (principal and interest) repayments of \$0.2 million per month. month through December 2025.

Effective July 1, 2023, at our option, we may borrow from our revolving credit facility at the variable one-month Daily Simple SOFR or at a fixed rate for a designated period at the SOFR corresponding to such period (subject to a 0.25% floor), 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 the first nine three months of fiscal year 2024 2025 for our revolving credit facility ranged from 6.4% to was 7.1%. Interest on outstanding borrowings of the 2018 Term Loan accrued at a fixed rate of 3.90% over the term of the loan. On December 23, 2023 June 29, 2024, we had no hedging arrangements in place for our revolving credit facility to limit our exposure to movements in interest rates.

FOREIGN CURRENCY

Approximately 90% of our total revenues for each of the first nine months quarter of fiscal year 2024 2025 and 2023 2024 were denominated in U.S. dollars, with the remainder denominated in Canadian dollars and Euros. A 10% change in the value of the Canadian dollar to the U.S. dollar and the Euro to the U.S. dollar would impact our revenue by approximately 1%. We monitor the relationship between the U.S. dollar and the Canadian dollar and the U.S. dollar and the Euro on a monthly basis and adjust sales prices for products and services sold in Canadian dollars or Euros as we believe to be appropriate.

We continually utilize short-term foreign exchange forward contracts to reduce the risk that future earnings denominated in Canadian dollars 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 loss of \$0.1 million and a gain of \$0.3 million during in both the first nine months quarter of the fiscal years 2024 2025 and 2023, 2024, respectively, was recognized as a component of Interest and Other Expense, net 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 December 23, 2023 June 29, 2024, we had a foreign exchange contract, which matured in January July 2024, outstanding in the notional amount of \$2.0 \$1.8 million. The foreign exchange contract was renewed in January July 2024 and continues to be in place. We do not use hedging arrangements for speculative purposes.

ITEM 4. CONTROLS AND PROCEDURES

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 (the "Exchange Act"), Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly 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.

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 quarterly report (our **third first** quarter of fiscal year **2024 2025**) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

INDEX TO EXHIBITS

Exhibit No.	Description
(2)	Plan of acquisition, reorganization, arrangement, liquidation or succession
2.1 [^]	Agreement and Plan of Merger, dated April 15, 2024, by and among Transcat, Inc., Becnel Rental Tools, LLC, and the other parties thereto is incorporated by reference from Exhibit 2.2 to the Company's Annual Report on Form 10-K for the year ended March 30, 2024
(10)	Material Contracts
10.1#	Consulting Agreement, between Transcat, Inc. and Mark Doheny, dated as of April 8, 2024 is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 8, 2024
10.2# [^]	Separation Agreement, between Transcat, Inc. and Mark Doheny, dated as of April 5, 2024 is incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 8, 2024
10.3 [^]	Registration Rights Agreement, dated April 15, 2024, by and among Transcat, Inc., Jason Becnel, Mark Becnel, and the other parties thereto is incorporated by reference from Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended March 30, 2024
10.4	Amendment to Share Purchase Agreement dated August 31, 2021 by and among Transcat, Inc., John Cummins and Ross Lane, dated May 20, 2024, is incorporated herein by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 20, 2024 (Film No. 24964793)
(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* Inline XBRL Instance Document

101.SCH* Inline XBRL Taxonomy Extension Schema Document

101.CAL* Inline XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF* Inline XBRL Taxonomy Extension Definition Linkbase Document

101.LAB* Inline XBRL Taxonomy Extension Label Linkbase Document

101.PRE* Inline XBRL Taxonomy Extension Presentation Linkbase Document

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

* Exhibit filed with this report.

** Exhibit furnished with this report.

Management contract or compensatory plan or arrangement

^ Schedules and similar attachments have been omitted pursuant to Item 601 (a)(5) of Regulation S-K. The Company will furnish a copy of any omitted schedule or similar attachment to the Securities and Exchange Commission upon request.

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SIGNATURES

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

TRANSCAT, INC.

Date: January 31, 2024 August 7, 2024

/s/ Lee D. Rudow

Lee D. Rudow

President and Chief Executive Officer
(Principal Executive Officer)

Date: January 31, 2024 August 7, 2024

/s/ Thomas L. Barbato

Thomas L. Barbato

Senior Vice President of Finance and Chief Financial Officer
(Principal Financial Officer)

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Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Lee D. Rudow, President and Chief Executive Officer of Transcat, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Transcat, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 31, August 7, 2024

/s/ Lee D. Rudow

Lee D. Rudow

President and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas L. Barbato, Senior Vice President of Finance and Chief Financial Officer of Transcat, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Transcat, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 31, August 7, 2024

/s/ Thomas L. Barbato

Thomas L. Barbato

Senior Vice President of Finance and Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this quarterly report on Form 10-Q of Transcat, Inc., Lee D. Rudow, the Chief Executive Officer of Transcat, Inc. and Thomas L. Barbato, the Chief Financial Officer of Transcat, Inc. certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of their knowledge, that:

1. This quarterly report on Form 10-Q for the **third first** quarter ended **December 23, 2023 June 29, 2024** fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in this quarterly report on Form 10-Q for the **third first** quarter ended **December 23, 2023 June 29, 2024** fairly presents, in all material respects, the financial condition and results of operations of Transcat, Inc.

Date: **January 31, August 7, 2024**

/s/ Lee D. Rudow

Lee D. Rudow
President and Chief Executive Officer
(Principal Executive Officer)

Date: **January 31, August 7, 2024**

/s/ Thomas L. Barbato

Thomas L. Barbato
Senior Vice President of Finance and Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Transcat, Inc. and will be retained by Transcat, Inc. and furnished to the SEC or its staff upon request.

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