ATHENAHEALTH INC
Form SC 13D/A
May 07, 2018
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13D/A

(Amendment No. 1)*

Under the Securities Exchange Act of 1934

athenahealth, Inc.
(Name of Issuer)

Common Stock, $0.01 par value
(Title of Class of Securities)

04685W103
(CUSIP Number)

Elliott Associates, L.P.

c/o Elliott Management Corporation

40 West 57th Street

New York, NY 10019

with a copy to:

Eleazer Klein, Esq.
Marc Weingarten, Esq.

Schulte Roth & Zabel LLP

919 Third Avenue

New York, New York 10022

(212) 756-2000
(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

May 7, 2018
(Date of Event Which Requires Filing of This Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), Rule 13d-1(f) or Rule 13d-1(g), check the following box. [ ]

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* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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1	NAME OF REPORTING PERSON Elliott Associates, L.P.		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP	(a) x (b) ¨	
3	SEC USE ONLY		
4	SOURCE OF FUNDS WC		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDING IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)	¨	
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:	**7**	SOLE VOTING POWER 185,599	
	8	SHARED VOTING POWER 0	
	9	SOLE DISPOSITIVE POWER 185,599	
	10	SHARED DISPOSITIVE POWER 0	

11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH PERSON 185,599
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES ¨
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 0.5%
14	TYPE OF REPORTING PERSON PN

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1	NAME OF REPORTING PERSON Elliott International, L.P.	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP	(a) x (b) ¨
3	SEC USE ONLY	
4	SOURCE OF FUNDS WC	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDING IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)	¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION Cayman Islands, British West Indies	

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:	**7**	SOLE VOTING POWER 0
	8	SHARED VOTING POWER 394,401
	9	SOLE DISPOSITIVE POWER 0
	10	SHARED DISPOSITIVE

	POWER 394,401	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH PERSON 394,401	
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES	¨
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 1.0%	
14	TYPE OF REPORTING PERSON PN	

1	NAME OF REPORTING PERSON Elliott International Capital Advisors Inc.		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP	(a) x (b) ¨	
3	SEC USE ONLY		
4	SOURCE OF FUNDS OO		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDING IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)		
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:	**7**	SOLE VOTING POWER 0	
	8	SHARED VOTING POWER 394,401	
	9	SOLE DISPOSITIVE POWER 0	
	10	SHARED DISPOSITIVE	

	POWER 394,401	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH PERSON 394,401	
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES	¨
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 1.0%	
14	TYPE OF REPORTING PERSON CO	

This Amendment No. 1 ("Amendment No. 1") amends and supplements the statement on Schedule 13D filed with the Securities and Exchange Commission (the "SEC") on May 18, 2017 (the "Original Schedule 13D" and, together with this Amendment No. 1, the "Schedule 13D") with respect to the common stock, par value $0.01 per share (the "Common Stock"), of athenahealth, Inc., a Delaware corporation (the "Issuer"). Capitalized terms used herein and not otherwise defined in this Amendment No. 1 shall have the meanings set forth in the Original Schedule 13D. This Amendment No. 1 amends Items 3, 4, 5(a) and (c), 6 and 7 as set forth below.

Item 3. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION

Item 3 of the Schedule 13D is hereby amended and restated in the entirety by the following:

Elliott Working Capital	The aggregate purchase price of the shares of Common Stock directly owned by Elliott is approximately $21,470,510.
Elliott International Working Capital	The aggregate purchase price of the shares of Common Stock directly owned by Elliott International is approximately $45,625,182.

The Reporting Persons may effect purchases of shares of Common Stock through margin accounts maintained for them with prime brokers, which extend margin credit as and when required to open or carry positions in their margin accounts, subject to applicable federal margin regulations, stock exchange rules and such firms' credit policies. Positions in shares of Common Stock may be held in margin accounts and may be pledged as collateral security for the repayment of debit balances in such accounts. Since other securities may be held in such margin accounts, it may not be possible to determine the amounts, if any, of margin used to purchase shares of Common Stock.

Item 4. PURPOSE OF TRANSACTION

Item 4 of the Schedule 13D is hereby amended and supplemented by the addition of the following:

On May 7, 2018, Elliott Management Corp., an affiliate of the Reporting Persons ("Elliott Management"), issued a press release (the "Press Release") containing a letter that was delivered to the Issuer by Elliott Management, which includes, among other things, a proposal to acquire the Issuer for $160 per share in cash (the "Proposal"). Elliott Management also notes in the letter that it may be able to substantially improve the proposed price with additional, private diligence. The Press Release containing the letter is attached as Exhibit 99.1 hereto, which is incorporated herein by reference.

Elliott Management and the Reporting Persons reserve the right to modify the Proposal in any way, to extend or discontinue discussions regarding the same, or to withdraw the Proposal at any time. The Reporting Persons and their affiliates may, directly or indirectly, take such additional steps from time to time as they may deem appropriate to further the Proposal as may be modified from time to time, including, without limitation, (i) engaging in discussions regarding the same with the Issuer, other shareholders, potential sources of debt and equity financing, advisors, and other relevant parties, and (ii) entering into non-disclosure, financing commitments, and other agreements, arrangements and understanding as may be appropriate in connection with its Proposal, as may be modified from time to time.

Item 5. INTEREST IN SECURITIES OF THE ISSUER

Items 5(a) and (c) of the Schedule 13D are hereby amended and restated in its entirety by the following:

(a) As of the date hereof, Elliott, Elliott International and EICA collectively have beneficial ownership of 580,000 shares of Common Stock constituting approximately 1.4% of the shares of Common Stock outstanding and combined economic exposure in the Issuer equivalent to 3,580,000 shares of Common Stock constituting approximately 8.9% of the shares of Common Stock outstanding.

The aggregate percentage of Common Stock reported owned by each person named herein is based upon 40,409,721 shares of Common Stock outstanding, which is the total number of shares of Common Stock outstanding as of April 24, 2018, as reported in the Issuer's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018, filed with the SEC on April 26, 2018.

As of the date hereof, Elliott beneficially owned 185,599 shares of Common Stock, constituting approximately 0.5% of the shares of Common Stock outstanding.

As of the date hereof, Elliott International beneficially owned 394,401 shares of Common Stock, constituting approximately 1.0% of the shares of Common Stock outstanding. EICA, as the investment manager of Elliott International may be deemed to beneficially own the 394,401 shares of Common Stock beneficially owned by Elliott International, constituting approximately 1.0% of the shares of Common Stock outstanding.

Collectively, Elliott, Elliott International and EICA beneficially own 580,000 shares of Common Stock, constituting approximately 1.4% of the shares of Common Stock outstanding.

Collectively, Elliott, Elliott International and EICA have economic exposure comparable to approximately 8.9% of the shares of Common Stock outstanding pursuant to the Derivative Agreements (defined below), as disclosed in Item 6.

(c) The transactions effected by the Reporting Persons during the past 60 days are set forth on Schedule 1 attached hereto.

Item 6. CONTRACTS, ARRANGEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO SECURITIES OF THE ISSUER

Item 6 of the Schedule 13D is hereby amended and restated by the addition of the following:

Elliott, both directly and indirectly through The Liverpool Limited Partnership, a Bermuda limited partnership and a wholly-owned subsidiary of Elliott ("Liverpool"), and Elliott International have entered into notional principal amount derivative agreements (the "Derivative Agreements") in the form of cash settled swaps with respect to 959,995 and 2,040,005 shares of Common Stock of the Issuer, respectively (representing economic exposure comparable to 2.4% and 5.0% of the shares of Common Stock of the Issuer, respectively). Collectively, the Derivative Agreements held by the Reporting Persons represent economic exposure comparable to an interest in approximately 7.4% of the shares of Common Stock. The Derivative Agreements provide Elliott and Elliott International with economic results that are comparable to the economic results of ownership but do not provide them with the power to vote or direct the voting or dispose of or direct the disposition of the shares that are referenced in the Derivative Agreements (such shares, the "Subject Shares"). The Reporting Persons disclaim beneficial ownership in the Subject Shares. The counterparties to the Derivative Agreements are unaffiliated third party financial institutions.

Item 7. EXHIBITS

<u>**Exhibit**</u>	<u>**Description**</u>
Item 7 of the Schedule 13D is hereby amended and supplemented by the addition of the following:	
Exhibit 99.1	Press Release, dated May 7, 2018.

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SIGNATURES

After reasonable inquiry and to the best of his or its knowledge and belief, each of the undersigned certifies that the information set forth in this statement is true, complete and correct.

DATE: May 7, 2018

ELLIOTT ASSOCIATES, L.P.
By: Elliott Capital Advisors, L.P., as General Partner
By: Braxton Associates, Inc., as General Partner

/s/ Elliot Greenberg
Name: Elliot Greenberg
Title: Vice President

ELLIOTT INTERNATIONAL, L.P.
By: Elliott International Capital Advisors Inc., as Attorney-in-Fact

/s/ Elliot Greenberg
Name: Elliot Greenberg
Title: Vice President

ELLIOTT INTERNATIONAL CAPITAL ADVISORS INC.

/s/ Elliot Greenberg
Name: Elliot Greenberg
Title: Vice President

SCHEDULE 1

Transactions of the Reporting Persons Effected During the Past 60 Days

The following transactions were effected directly by Elliott Associates, L.P. in the shares of Common Stock during the past 60 days:

Date	Security	Amount of Shs. Bought / (Sold)	Approx. price ($) per Share
04/27/2018	Common Stock	1,396	127.67
04/30/2018	Common Stock	14,720	122.22
05/01/2018	Common Stock	40,000	125.09
05/02/2018	Common Stock	7,884	126.95
05/03/2018	Common Stock	1,600	127.01

The following transactions were effected by Elliott International, L.P. in the shares of Common Stock during the past 60 days:

Date	Security	Amount of Shs. Bought / (Sold)	Approx. price ($) per Share
04/27/2018	Common Stock	2,966	127.67
04/30/2018	Common Stock	31,280	122.22
05/01/2018	Common Stock	85,000	125.09
05/02/2018	Common Stock	16,754	126.95
05/03/2018	Common Stock	3,400	127.01

Exhibit 99.1

Press Release

Media Contact:

Stephen Spruiell
Elliott Management Corporation
(212) 478-2017
sspruiell@elliottmgmt.com

Elliott Management Makes Proposal to Acquire athenahealth

Proposes to acquire athenahealth for $160 per share in cash, representing a premium of 27%

Full letter available at ElliottLetters.com/athenahealth

NEW YORK (May 7, 2018) – Elliott Management Corporation ("Elliott"), which manages funds that own common stock and economic equivalents representing 8.9% of the outstanding common stock of athenahealth, Inc. (NASDAQ: ATHN) (the "Company" or "athenahealth"), today released a letter outlining a proposal to acquire athenahealth for $160 per share in cash, representing a premium of 27% to the current stock price.

The letter can be downloaded and read in full at ElliottLetters.com/athenahealth.

The full text of the letter can be read below:

Elliott Management Corp.
40 West 57th Street
New York, New York 10019

Tel. (212) 974-6000
Fax: (212) 974-2092

May 7, 2018

The Board of Directors

athenahealth, Inc.

311 Arsenal Street

Watertown, MA 02472

Dear Members of the Board:

I am writing to you on behalf of Elliott Associates, L.P. and Elliott International, L.P. (collectively, "Elliott" or "we"), which collectively own common stock and economic equivalents representing 8.9% of the outstanding common stock of athenahealth, Inc. (the "Company" or "athenahealth"), making us one of your largest investors.

For the past year, we have had extensive private engagement with athenahealth's management and the Board of Directors regarding the best path forward for the Company. This dialogue has been constructive, and we greatly appreciate how much time the management team, led by Jonathan, and the Board have invested in evaluating our perspectives as well as the perspectives of our fellow shareholders.

Today, <u>Elliott proposes to acquire athenahealth for $160 per share in cash</u>. <u>We believe we may also be able to substantially improve the proposed price</u> with additional, private diligence. This preliminary proposal (the "Proposal") is outlined in the terms detailed below. We strongly believe that this Proposal represents compelling, premium value to shareholders.

Our letter today is organized around the following themes:

- Background to the Proposal
- Background on Elliott's Experience in Private Equity
- Details and Financing of the Proposal
- Due Diligence Requirements
- Next Steps

Elliott looks forward to working collaboratively with Jonathan, Jeff and the rest of the athenahealth Board to finalize our Proposal. Our team is ready to engage immediately on the steps outlined in the letter and can move forward on an expedited basis. We are excited about this opportunity. As longtime technology investors, we fully appreciate how rare it is for a company to achieve the level of success realized by athenahealth, and we recognize that this success is first and foremost a testament to its employees' hard work and dedication to the Company's mission-oriented approach. We believe that our Proposal represents the best path forward for athenahealth, its shareholders, its employees and its broader mission.

Background to the Proposal

Elliott has done an extensive amount of work to understand athenahealth’s business, its mission and its position in the broader healthcare landscape. We believe that athenahealth has great potential with a differentiated opportunity to fundamentally change the Healthcare IT (HCIT) industry. While we may (or may not) differ on the road ahead, we recognize the unique and powerful accomplishments that have taken place at athenahealth due to Jonathan’s vision.

Unfortunately, we are faced now with the stark reality that athenahealth as a public-company investment, despite all of its promise, has not worked for many years, is not working today and will not work in the future. Given athenahealth’s potential, this reality is deeply frustrating, but the fact remains that **athenahealth as a public company has not made the changes necessary to enable it to grow as it should and to create the kind of value its shareholders deserve.**

We have spent considerable time with many of the Company’s shareholders, former employees, customers, analysts and industry players. These stakeholders have exhibited extraordinary patience for years, hoping that the Company would somehow find a way to fix its problems in the areas of sales execution, service delivery, product focus, forecasting, executive turnover, capital allocation, management discipline and corporate governance. The hope was that, with these problems behind it, athenahealth could capitalize on the substantial opportunities in front of it – that the Company’s vision would carry the shares to their proper valuation.

However, it is clear to us and becoming clear to many others that athenahealth’s potential will never be realized without the kind of operational change that the Company seems unable to deliver. Beyond operations, our dialogue with the Company has also revealed an unwillingness to pursue alternative strategies for realizing athenahealth’s proper value. **Last November, we approached athenahealth about the possibility of a take-private transaction involving Elliott or other interested parties, and the Company refused to engage.** Whether operational or strategic, athenahealth appears unable to achieve the right outcome for shareholders on its own.

Stock-price underperformance

For many years, despite all of its advantages, athenahealth’s stock price has underperformed because the Company has failed to correct a host of identifiable operational issues. Today, its inability to operate effectively and scale successfully is foreclosing a tremendous value-creation opportunity to the detriment of the business and its shareholders.

The stock price tells the story: From a shareholder standpoint, owning athenahealth has been a disappointing experience. The Company's stock price has deeply underperformed all relevant benchmarks for more than five years. The Company's strategy, operations, execution and leadership over this period have failed to generate returns for shareholders, despite a highly attractive market opportunity and a differentiated product that is the envy of the industry. As we will address later, this chronic underperformance is driven by athenahealth-specific factors including poor execution, significant management turnover, inefficient allocation of resources and the loss of strategic focus. Even companies operating in far less attractive market segments with secular challenges have managed to operate efficiently, execute well and ultimately deliver far greater shareholder value.

The above table represents athenahealth's relative performance through today. **Note that this table includes the meaningful outperformance that athenahealth enjoyed in response to the disclosure of Elliott's investment (as evidenced in the aberrant one-year returns).** athenahealth's stock increased 22% the day after Elliott disclosed its stake and nearly 40% over the ensuing month based on expectations that long-awaited change would soon follow. The numbers above do not adjust for that benefit and would clearly look far worse without it.

Inability to execute

This stock-price underperformance is a direct result of athenahealth's inability to execute across a range of strategic and operational issues. Even a cursory review of the Company's public track record leads to the conclusion that the business and its shareholders have been deprived of significant value due to the Company's execution failures. Consider the following statistics:

- **Executive turnover**: athenahealth's leadership team has lacked stability, with five CFOs over the last four years. Just last week, this pattern continued with the loss of the Company's Chief Product Officer. The list of executives who have departed in the last five years is long and unfortunately familiar to shareholders who have lived through this disruption.

- **Operating Effectiveness**: athenahealth has long been unable to drive any operating leverage. Despite maintaining a 30% long-term operating margin target for many years, margins for 2017 were just 14%, well below the Company's peers and still down from 2011 margins of 17%, when the company was one-quarter its current size and lacked the benefit of scale. Recently, the Company took steps to improve margins to 16-17% for 2018 (based on guidance), but the Company appears to be struggling with execution of this plan.

- **Product Execution**: Operating issues go well beyond efficiency, as athenahealth's Streamlined introduction was a significant and disappointing step backward that led to years of NPS declines. Similar issues have plagued other athenahealth offerings such as its inpatient solution and Epocrates.

- **Strategy Execution:** athenahealth has a publicly described grand vision, but has repeatedly failed to execute. Inpatient is a prime example, where the Company has been unable to deliver consistent quality of service in order to promote the adoption of a product that is otherwise disruptive.

- **Forecasting:** Despite years of promises, athenahealth does not achieve what it sets out to. The Company repeatedly misses its targets: its long-held 30% operating margin target, 21% growth in 2017, $400–$450 million of bookings in 2017, 30% bookings growth in 2016, 100 hospital implementations in 2017, and many, many more examples.

- **Guidance**: athenahealth's team has shown that it lacks visibility into its business performance. The Company has repeatedly set and failed to achieve its targets, including twice cutting (and yet still missing) its 2017 bookings guidance. The Board, being forced to rely on these figures, cannot grade the business. Shareholders are left to suffer, with regular 10%–20% declines in the Company's stock price on earnings announcements. Prior to the disclosure of Elliott's position last year, athenahealth was by far the most heavily shorted U.S. company above $2 billion in the Software, Services and Healthcare IT universe.

Performance and execution are unlikely to improve

When Elliott first approached athenahealth last year, there existed considerable opportunities for business improvement. A serious and careful approach to change could have yielded meaningful benefits. Unfortunately, after evaluating the Company's execution of its recent changes, its positioning today and its prospects for the future, athenahealth appears destined to repeat the same operational and strategic failures that have plagued it (and shareholders) for years. Consider the following observations about where things stand:

- **Cost-plan execution**: Despite representing a well-intentioned step, athenahealth's recent cost plan appears to have suffered from serious design and execution flaws, and we do not believe it will create long-term, sustainable operational success. First, the plan was undertaken in the absence of a permanent CFO and without the operations-minded president one would have expected to see hired prior to its execution. Instead, it was developed under the guidance of a Board member who has been retired for a decade. Second, implementation seems to have been rushed and with insufficient regard to sustainability. The exercise now appears consistent with a one-off reduction in force rather than the kind of ongoing efficiency program that will focus the business, improve efficiency and drive growth over time. The Company has now admitted that it must fix, on the fly, mistakes that were made as a result of the plan's poor design and poor execution. Unfortunately, given the Company's track record, shareholders have no reason to feel confident that athenahealth will get the fixes right, much less improve in other areas where inconsistent execution has been an issue.

- **Leadership enhancements**: athenahealth's recently announced leadership enhancements have fallen short of the change that shareholders expected when these enhancements were announced. For example, we question whether athenahealth made the right choice in filling the role of Board chair given the Company's operational needs at the moment. In addition, we and other shareholders were hopeful when the Company announced its intention to bring on a capable president to oversee operations while Jonathan worked on strategic vision. However, after nine months since the "president search" began, it appears increasingly apparent that the Company is backing away from the plan to hire an empowered, operations-minded president, even though this role is needed now more than ever.

- **Lack of openness to strategic alternatives**: Elliott approached athenahealth privately in November about the possibility of exploring an acquisition of the Company. Other parties have also expressed interest. The Company has disappointingly refused to engage with us or other parties to explore the value-maximizing opportunities available through a sale. As a result, today we are making public a formal offer to acquire the Company.

We believe the unfortunate but inescapable reality is that performance at athenahealth is not going to get better. The Company already seems to be reverting back to long-established patterns of challenged execution and is unwilling to explore strategic alternatives for maximizing value. For shareholders, this means the future at athenahealth is likely to look a lot like the past.

Apart from its unique operational challenges, the Company finds itself at a difficult juncture for *any* public company. The growth in its core businesses has decelerated in recent years while its future growth engines have yet to scale to a level that can provide a meaningful contribution to revenue. In short, athenahealth is facing one of the most difficult transitions a technology company can make at a time when persistent missteps and controversy have likely *permanently impaired* its public-market valuation.

At a juncture like the one athenahealth presently faces, the case for going private is compelling and cannot be ignored.

Background on Elliott's Experience in Private Equity

Elliott is an investment firm founded in 1977 that today manages approximately $35 billion of capital for both institutional and individual investors. While our public investing efforts are well known, Elliott is also deeply experienced in making private equity investments, particularly in the technology space. Over the last decade, Elliott's private technology investments have included Novell, Metrologic, MSC Software, BMC Software, E2open, Mitchell International, Quest Software, SonicWall, Gigamon, ASG Technologies, and others.

Elliott and its affiliates employ a team of private equity industry veterans with decades of experience who have collectively closed more than $20 billion of transactions across multiple sectors of technology. We have also built a team of operating executives with each having more than 25 years of experience across technology, product development, sales and finance. We believe we are uniquely positioned to be a value-added partner to management teams across our investment portfolio.

As a firm with a 41-year history, Elliott has the capability and experience to own businesses with a long-term time horizon, provide capital for investment and M&A and bring highly experienced operational capabilities to drive sustained value-creation. We bring this same approach to our investment in athenahealth.

Details and Financing of the Proposal

Elliott proposes to acquire athenahealth for $160 per share in cash for 100% of the outstanding shares of the Company, representing an enterprise value of ~$6.9 billion. Our Proposal represents a premium of 27% to the current stock price and ~50% to the stock price prior to our 13D filing. We believe this Proposal represents compelling, premium value to shareholders. Moreover, with private diligence, we believe we may be able to substantially improve upon this valuation.

Elliott has received financing indications from the leading banks in leveraged finance, who are highly constructive and eager to provide financing for a take-private. We have long-standing working relationships with these lenders and are confident that we will have fully committed financing in the timeline outlined below.

We intend to finance the remaining capital required through equity invested by Elliott and select partners. Elliott has $35 billion of capital under management and relationships with many potential co-investors. We are enthusiastic about this opportunity and have already received the necessary internal approvals to make this Proposal. As a privately held investment fund with full discretion over the investment of the funds we manage, we do not require any corporate or shareholder approvals to consummate a transaction.

Lastly, this Proposal is not intended to be legally binding and is subject to, among other things, the negotiation and execution of a mutually satisfactory definitive acquisition agreement containing provisions customary for this type of transaction, regulatory approvals, and satisfactory completion of our due diligence.

Due Diligence Requirements

We believe we can complete our confirmatory due diligence in approximately three weeks if we are provided appropriate access to management and information. Given our familiarity with the Company through our extensive diligence to date, our due diligence will be expedited and highly targeted.

Prior to execution of a definitive purchase agreement, we would anticipate completion of the following activities: (i) customary company and financial diligence, including reviews of historical and future prospects of the business; (ii) engaging a leading accounting firm to conduct confirmatory accounting review; and (iii) completion of confirmatory legal due diligence by our legal counsel. Elliott has the ability to consummate a transaction on an accelerated basis, and we are prepared to immediately engage in our final due diligence review of, and engage in discussions with, the Company.

Next Steps

As a next step, we would welcome the opportunity to discuss this Proposal with Jonathan and the Board and to outline why we believe our Proposal maximizes value to shareholders, including employee-shareholders who have a meaningful amount of their hard-earned wealth invested in athenahealth stock. Indeed, we believe the Proposal represents a compelling opportunity for all of the Company’s stakeholders. The private market is an ideal setting for athenahealth and its employees to focus on long-term strategic initiatives and pursue the Company’s broader mission without the distraction of quarterly reporting. We have made this Proposal in part because we strongly believe that going private gives athenahealth the best chance to thrive as a disruptor in the healthcare technology market.

We want to thank the members of the Board and Jonathan for considering this Proposal. We are eager to move ahead by signing an NDA and commencing diligence to finalize our Proposal. Please do not hesitate to contact us with questions, and we will look forward to hearing from you soon.

Best regards,

/s/ Jesse Cohn
Name: Jesse Cohn
Title: Partner and Senior Portfolio Manager

About Elliott

Elliott Management Corporation manages two multi-strategy investment funds which combined have approximately $35 billion of assets under management. Its flagship fund, Elliott Associates, L.P., was founded in 1977, making it one of the oldest funds of its kind under continuous management. The Elliott funds' investors include pension plans, sovereign wealth funds, endowments, foundations, funds-of-funds, high net worth individuals and families, and employees of the firm.

###

Restricted Stock. Unless the participant makes an election to accelerate recognition of the income to the date of grant, a participant receiving a restricted stock award will not recognize income, and we will not be allowed a tax deduction, at the time the award is granted. When the restrictions lapse, the participant will recognize ordinary income equal to the fair market value of the common stock, and, subject to limitations in Section 162(m) of the Internal Revenue Code, if applicable, we will be entitled to a corresponding tax deduction at that time.

Unrestricted Stock. A participant receiving an unrestricted stock award will recognize ordinary income and, subject to Internal Revenue Code Section 162(m) limitations, if applicable, we will be allowed a tax deduction, at the time the award is granted.

Performance Awards. A participant receiving performance awards will not recognize income and we will not be allowed a tax deduction at the time the award is granted. When a participant receives payment of a performance award, the amount of cash and the fair market value of any shares of common stock received will be ordinary income to the participant and, subject to Internal Revenue Code Section 162(m) limitations, if applicable, will be allowed as a deduction for us for federal income tax purposes.

Limitation on Income Tax Deduction

Pursuant to Section 162(m) of the Internal Revenue Code, we may not deduct compensation in excess of $1,000,000 paid to a covered employee. The board has submitted the Restated Plan for approval by the shareholders in order to permit the grant of certain awards thereunder, such as stock options, stock appreciation rights and certain performance awards, that will constitute qualified performance-based compensation, which will be excluded from the calculation of annual compensation of covered employees for purposes of Section 162(m) and will be fully deductible by us. The compensation committee may grant awards under the Restated Plan that do not qualify as performance-based compensation under Section 162(m). The payment of any non-qualifying awards to a covered employee could be non-deductible by us, in whole or in part, under Section 162(m), depending on the covered employee s total compensation in the applicable year.

Performance Goals. Under the Restated Plan, the vesting or payment of performance-based awards will be subject to the satisfaction of certain performance goals. To the extent an award is intended to qualify for the qualified performance-based compensation exemption from the $1,000,000 deduction limit under Section 162(m), as described above, the performance goals will be one or more of the following objective corporate-wide or subsidiary, division, operating unit or individual measures, stated in either absolute terms or relative terms, such as rates of growth or improvement: (a) increase in total revenue or product revenue, (b) earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization (EBITDA) or net earnings (either before or after interest, taxes, depreciation and/or amortization), (c) return on assets, return on capital or return on shareholders equity, (d) total shareholder return, (e) gross margin, (f) earnings per share, (g) net income, (h) operating income, (i) net profit, (j) operating profits, (k) profits before tax, (l) ratio of debt to debt plus equity, (m) economic value added, (n) ratio of operating earnings to capital spending, free cash flow, return on assets, equity or shareholders equity, (o) common stock price per share, and (p) strategic business criteria, consisting of one or more objectives such as (i) geographic business expansion goals, (ii) cost targets, (iii) customer satisfaction ratings, (iv) reductions in errors and omissions, (v) reductions in lost business, (vi) supervision of litigation, (vii) satisfactory audit scores, (viii) productivity, (ix) efficiency, (x) budget and expense management and (xi) goals relating to acquisitions or divestitures, or any combination of the foregoing.

New Plan Benefits

The benefits to be received by participants and the number of shares to be granted under the Restated Plan cannot be determined at this time. The amount and form of grants to be made in any year is to be determined at the discretion of the compensation committee, and may vary from year to year and from participant to participant. The compensation committee did, however, approve the awards explained in the discussion following the 2011 Summary Compensation Table. These awards may be considered representative of the awards that would have been made to our named executive officers had the Restated Plan been in effect at that time.

Equity Compensation Plan Information as of March 26, 2011
(In Thousands, Except Per Share Amounts)

Plan Category	**Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)**	**Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)**
Equity compensation plans approved by security holders	829(1)	$ 4.67	231
Equity compensation plans not approved by security holders			
Total	829	$ 4.67	231

(1) Includes performance-based restricted stock awards granted to officers and key employees pursuant to our 2003 Incentive Plan.

Required Vote and Board Recommendation

The affirmative vote of a majority of the shares of common stock duly cast at the annual meeting is required to approve the Restated Plan. The board of directors recommends that you vote FOR the approval of the Transcat, Inc. 2003 Incentive Plan, as Amended and Restated and the persons named in the enclosed proxy (unless otherwise instructed therein) will vote such proxies FOR this proposal.

PROPOSAL THREE

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

BDO USA, LLP, which we refer to as BDO, served as our independent registered public accounting firm for the fiscal year ended March 26, 2011 and fiscal year ended March 27, 2010.

The audit committee has selected BDO as our independent registered public accounting firm for the fiscal year ending March 31, 2012. This selection is being presented to our shareholders for ratification at the annual meeting. The audit committee will consider the outcome of this vote in its future discussions regarding the selection of our independent registered public accounting firm for subsequent fiscal years.

The board of directors recommends you vote in favor of the proposal to ratify the selection of BDO as our independent registered public accounting firm for the fiscal year ending March 31, 2012 and the persons named in the enclosed proxy (unless otherwise instructed therein) will vote such proxies FOR this proposal.

We have been advised by BDO that a representative will be present at the annual meeting and will be available to respond to appropriate questions. We intend to give such representative an opportunity to make a statement if he or she should so desire.

Fees Paid to BDO USA, LLP

The following table shows the fees for professional services provided by BDO during the fiscal year ended March 26, 2011, which we refer to as fiscal year 2011, and the fiscal year ended March 27, 2010, which we refer to as fiscal year 2010.

	Fiscal Year 2011		Fiscal Year 2010	
Audit Fees	$	218,676	$	247,079
Audit-Related Fees				
Tax Fees				
All Other Fees				
Total	$	218,676	$	247,079

Audit fees paid to BDO during fiscal year 2011 and fiscal year 2010 were for professional services rendered for the audit of our annual consolidated financial statements and reviews of the financial statements included in our Quarterly Reports on Form 10-Q.

Pre-Approval of Fees by Audit Committee

In accordance with applicable laws, rules and regulations, our audit committee charter requires that the audit committee have the sole authority to review in advance and pre-approve all audit and permitted non-audit fees for services provided to us by our independent registered public accounting firm. The audit committee has pre-approved all fees paid to BDO.

Policy on Pre-Approval of Retention of Independent Registered Public Accounting Firm

The engagement of BDO for non-audit accounting and tax services, if required, is limited to those circumstances where the services are considered integral to the related audit services or where there is another compelling rationale for using BDO s services.

All audit services for which BDO was engaged were pre-approved by the audit committee. The audit committee may delegate to one or more designated members of the audit committee the authority to grant required pre-approval of audit and permitted non-audit services. The decision of any member to whom authority is delegated is required to be presented to the full audit committee at its next scheduled meeting.

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Independence Analysis by Audit Committee

The audit committee has considered whether the provision of the services described above was compatible with maintaining the independence of BDO and determined that the provision of such services was compatible with such firm s independence. For each of fiscal year 2011 and fiscal year 2010, BDO provided no services other than those services described above.

REPORT OF THE AUDIT COMMITTEE[1]

The audit committee of the board of directors is currently comprised of four members of the board of directors, each of whom the board of directors has determined is independent under the independence standards of the Nasdaq Stock Market and applicable Securities and Exchange Commission rules. The audit committee assists the board of directors in overseeing the company s accounting and financial reporting processes and financial statement audits. The specific duties and responsibilities of the audit committee are set forth in the audit committee charter, which is available on our website, transcat.com, under the heading Investor Relations and the subheading Corporate Governance.

The audit committee has:

reviewed and discussed the company s audited consolidated financial statements for fiscal year 2011 with the company s management and BDO USA, LLP;

discussed with BDO USA, LLP the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and

received and discussed the written disclosures and the letter from BDO USA, LLP required by applicable requirements of the Public Accounting Oversight Board regarding the independent registered public accounting firm s communications with the audit committee concerning independence; and has discussed with BDO USA, LLP its independence.

Based on these reviews and discussions with management and BDO USA, LLP, and the report of BDO USA, LLP, and subject to the limitations on the committee s role and responsibilities contained in the audit committee charter, the audit committee recommended to the board of directors, and the board of directors approved, that the audited consolidated financial statements for fiscal year 2011 be included in the company s annual report on Form 10-K for fiscal year 2011 for filing with the Securities and Exchange Commission.

The audit committee selects the company s independent registered public accounting firm annually and has submitted such selection for fiscal year 2012 for ratification by shareholders at the annual meeting.

Audit Committee:

Richard J. Harrison, Chair
Francis R. Bradley
Paul D. Moore
Harvey J. Palmer

[1] The material in this report is not deemed to be soliciting material, or to be filed with the Securities and Exchange Commission and is not to be incorporated by reference in any of our filings under the Securities Act of 1933, as

amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filings.

CORPORATE GOVERNANCE

Board Meetings

The board of directors held five meetings during fiscal year 2011. Each director then in office attended at least 75% of the total of such board meetings and meetings of board committees on which he or she served.

Director Independence

The board of directors has determined that all of our directors, other than Mr. Hadeed, are independent pursuant to the independence standards of the Nasdaq Stock Market. The board determined that Mr. Sassano was independent pursuant to the independence standards of the Nasdaq Stock Market as of May 2011.

Executive Sessions; Lead Director

During fiscal year 2011, our independent directors met in regularly scheduled executive sessions, without management present, as required by the listing standards of the Nasdaq Stock Market. These executive sessions were coordinated by Mr. Smith, who served as the lead director of our independent directors until May 2011 when the board determined that Mr. Sassano, our chairman of the board, was independent pursuant to the independence standards of the Nasdaq Stock Market. Mr. Sassano now presides over the executive sessions of the independent directors.

Board Leadership Structure

The board of directors separates the roles of chief executive officer and chairman of the board, based on the board s belief that corporate governance of the company and appropriate, independent oversight of management is most effective when these positions are not held by the same person. The board recognizes the differences between the two roles and believes that separating them allows each person to focus on their individual responsibilities. Under this leadership structure, our chief executive officer can focus his attention on day-to-day company operations and performance, establishing and implementing long-term strategic plans, and our chairman of the board can focus his attention on board responsibilities.

Presently, the board believes it is appropriate to keep the roles of chief executive officer and chairman of the board separate. The board may, however, change the leadership structure if it believes that a change would better serve the company and its shareholders.

During fiscal year 2011 and until May 2011, the board also had a lead director who served as the chairman of the executive sessions of the independent directors. Now that the board has determined that Mr. Sassano, our chairman of the board, is independent pursuant to the independence standards of the Nasdaq Stock Market, Mr. Sassano presides over the executive sessions of the independent directors.

Board Committees

The board of directors has established, among other committees, an audit committee, a corporate governance and nominating committee and a compensation committee. Each committee acts pursuant to a written charter adopted by our board of directors. The current charter for each board committee is available on our website, transcat.com, under the heading Investor Relations and the subheading Corporate Governance. The information contained on our website is not a part of this proxy statement.

Audit Committee

The current members of the audit committee are Mr. Harrison (chair), Mr. Bradley, Mr. Moore and Dr. Palmer. The board has determined that each of Mr. Harrison, Mr. Bradley, Mr. Moore and Dr. Palmer is independent pursuant to the independence standards of the Nasdaq Stock Market and applicable Securities and Exchange Commission rules. The board of directors has determined that each audit committee member has sufficient knowledge in financial and auditing matters to serve on the audit committee. The board of directors has designated Mr. Harrison as an audit committee financial expert in accordance with applicable Securities and Exchange Commission rules and based on his professional experience in banking and finance as described in his biography under Proposal One Election of Directors. The board of directors has determined that Mr. Moore would also qualify as an audit committee financial expert in accordance with applicable Securities and Exchange Commission rules and based on his professional experience in banking and corporate lending as described in his biography under Proposal One Election of Directors.

The audit committee serves as an independent and objective party to monitor our financial reporting process and internal control system; retains, pre-approves audit and permitted non-audit services to be performed by, and directly consults with, our independent registered public accounting firm; reviews and appraises the services of our independent registered public accounting firm; and provides an open avenue of communication among our independent registered public accounting firm, financial and senior management and our board of directors. Our audit committee charter more specifically sets forth the duties and responsibilities of the audit committee.

The audit committee is also responsible for preparing the committee s report that Securities and Exchange Commission rules require be included in our annual proxy statement, and performing such other tasks that are consistent with its charter.

The audit committee held four meetings during fiscal year 2011. The audit committee s report relating to fiscal year 2011 appears under the heading Report of the Audit Committee.

Corporate Governance and Nominating Committee

The current members of the corporate governance and nominating committee are Mr. Smith (chair) and Mr. Resnick. The board has determined that each of Mr. Smith and Mr. Resnick is independent pursuant to the independence standards of the Nasdaq Stock Market.

The corporate governance and nominating committee is charged with identifying candidates, consistent with criteria approved by the committee, qualified to become directors and recommending that the board of directors nominate such qualified candidates for election as directors. The committee is also responsible for reviewing our code of regulations, shaping corporate governance, overseeing the evaluation of the board of directors, board committees and management, and performing such tasks that are consistent with the corporate governance and nominating committee charter.

The process followed by the corporate governance and nominating committee to identify and evaluate candidates includes requests to board members, the chief executive officer and others for recommendations, meetings from time to time to evaluate biographical information and background material relating to potential candidates and their qualifications, and interviews of selected candidates.

The corporate governance and nominating committee also considers and establishes procedures for shareholder recommendations of nominees to the board. Shareholder recommendations, together with relevant biographical information, should be sent to the following address: Transcat, Inc., 35 Vantage Point Drive, Rochester, New York 14624, Attention: Corporate Secretary. The qualifications of recommended candidates will be reviewed by the corporate governance and nominating committee.

In evaluating the suitability of candidates (other than our executive officers) to serve on the board of directors, including shareholder nominees, the corporate governance and nominating committee seeks candidates who are independent pursuant to the independence standards of the Nasdaq Stock Market and meet certain selection criteria established by the corporate governance and nominating committee from time to time. The corporate governance and nominating committee also considers an individual s skills; character and professional ethics; judgment; leadership experience; business experience and acumen; familiarity with relevant industry issues; national and international experience; and other relevant criteria that may contribute to our success. This evaluation is performed in light of the skill set and other characteristics that complement those of the current board, including the diversity, maturity, skills and experience of the board as a whole. Although the corporate governance and nominating committee does not have a specific written diversity policy, the committee values and considers diversity when seeking and evaluating candidates for the board. The committee believes that diversity is not limited to gender and ethnicity, but also includes perspective gained from educational and cultural backgrounds and life experiences.

The corporate governance and nominating committee held one meeting during fiscal year 2011.

Compensation Committee

The current members of the compensation committee are Mr. Resnick (chair), Ms. Hessler, Dr. Palmer and Mr. Smith. The board has determined that each of Mr. Resnick, Ms. Hessler, Dr. Palmer and Mr. Smith is independent pursuant to the independence standards of the Nasdaq Stock Market.

The compensation committee is responsible for establishing and implementing compensation programs for our executive officers and directors that further the intent and purpose of our fundamental compensation philosophy and objectives and for performing such other tasks that are consistent with its charter.

The compensation committee held two meetings during fiscal year 2011.

For more information on executive compensation and director compensation and the role of the compensation committee, see Compensation Overview under the heading Executive Compensation.

The Board s Role in Risk Oversight

The board of directors is responsible for overseeing risks that could affect our company and management s processes for managing risk. This oversight is conducted primarily through the board s committees. Our audit committee focuses on financial risks, including those that could arise from our accounting and financial reporting processes and financial statement audits. Our corporate governance and nominating committee focuses on the management of risks associated with board membership and structure, as well as corporate governance. Our compensation committee focuses on the management of risks arising from our compensation policies and programs.

While our board committees are focused on these specific areas of risk, the full board retains responsibility for general risk oversight. This responsibility is satisfied through reports from each committee chairman regarding the risk considerations within each committee s area of expertise, as well as through reports from members of our senior management team responsible for oversight of material risk to the company.

As part of its risk oversight responsibilities, our board of directors and its committees review the processes that senior management use to manage our risk exposure. In doing so, the board and its committees review our overall risk function and senior management s establishment of appropriate systems and processes for managing areas of material risk to our company, including, but not limited to, operational, financial, legal, regulatory and strategic risks.

Shareholder Communications

Shareholders may send correspondence by mail to the full board of directors or to individual directors. Shareholders should address correspondence to the board of directors or the relevant board members in care of: Transcat, Inc., 35 Vantage Point Drive, Rochester, New York 14624, Attention: Corporate Secretary.

All shareholder correspondence will be compiled by our corporate secretary and forwarded as appropriate. In general, correspondence relating to corporate governance issues, long-term corporate strategy or similar substantive matters will be forwarded to the board of directors, the individual director, one of the aforementioned committees of the board, or a committee member for review. Correspondence relating to the ordinary course of business affairs, personal grievances, and matters as to which we tend to receive repetitive or duplicative communications are usually more appropriately addressed by our officers or their designees and will be forwarded to such persons accordingly.

Director Attendance at Annual Meetings

Company policy requires all directors, absent special circumstances, to attend our annual shareholder meetings. All of our directors attended the annual meeting of shareholders that was held on September 14, 2010.

Code of Ethics

We have a code of business conduct and ethics that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. You can find our code of business conduct and ethics on our website, transcat.com, under the heading Investor Relations and the subheading Corporate Governance. We will provide a printed copy of our code of business conduct and ethics, without charge, to any shareholder who requests it by contacting our corporate secretary at 35 Vantage Point Drive, Rochester, New York 14624.

We intend to post any amendments to or waivers from our code of business conduct and ethics on our website.

EXECUTIVE OFFICERS

We are currently served by seven executive officers:

Charles P. Hadeed, age 61, is our president, chief executive officer and chief operating officer. For more information about Mr. Hadeed, see Proposal One Election of Directors.

John J. Zimmer, age 53, is our senior vice president of finance and chief financial officer. Prior to June 1, 2011, Mr. Zimmer was our vice president of finance and chief financial officer. Mr. Zimmer served as executive vice president and chief financial officer of E-chx, Inc., a payroll outsourcing company, prior to joining us in June 2006. Prior to joining E-chx, Inc. in October 2003, he was a principal with the public accounting firm of DeJoy, Knauf & Blood, LLP. Prior to that, Mr. Zimmer served for four years as vice president-finance and treasurer of Choice One Communications Inc. Prior to joining Choice One, Mr. Zimmer was employed for seven years by ACC Corp., during which time he served as controller, then vice president-finance and later vice president and treasurer.

Michael P. Craig, age 57, is our vice president of human resources. Prior to joining us in December 2009, Mr. Craig was senior director global human resources at Genencor International, Inc., a biotechnology company and division of Danisco A/S, from 1998 through 2009. Prior to that, he served in a variety of human resources management positions during his more than 16-year career at Bausch & Lomb Incorporated, including the position of vice president human resources-western hemisphere.

Lori L. Drescher, age 51, is our vice president of sales operations, a position she has held since February 2011. From January 2008 until February 2011, she was our vice president of business process improvement and training. From October 2006 through December 2007, she served as our senior director of inside sales and customer service. Prior to joining us in October 2006 and from 2000, Ms. Drescher was president of Great-Co Learning Center, a management consulting firm that she established.

John P. Hennessy, age 63, is our vice president of sales and marketing and has served us in this position since January 2010. Prior to joining us in January 2008 as our vice president of sales, and from June 1997, Mr. Hennessy served as vice president of marketing and sales at Sunstar Americas, Inc., an oral health care products company. Prior to that, Mr. Hennessy served for more than 15 years in executive-level sales and marketing positions, including general manager, vice president and director-level positions, at Bausch & Lomb Incorporated and Johnson & Johnson.

Rainer Stellrecht, age 61, is our vice president of laboratory operations and has served us in this position since July 2007. Mr. Stellrecht, who joined us in 1977, has served in a number of positions with us during that time including senior director of laboratory operations and technical director.

Jay F. Woychick, age 54, is our vice president of wind energy commercial operations and vendor relations and has served us in this position since January 2010. Mr. Woychick, who joined us in September 2000, has served us in sales and marketing positions, most recently as our vice president of marketing. Prior to joining us, Mr. Woychick was employed for 13 years by Polymer Technology, a subsidiary of Bausch & Lomb Incorporated, most recently serving as director of marketing and sales for the RGP Group.

EXECUTIVE COMPENSATION

As a smaller reporting company under the Securities Exchange Act of 1934, as amended, we have provided the following executive and director compensation information in accordance with the scaled disclosure requirements of Regulation S-K.

Named Executive Officers

This proxy statement contains information about the compensation paid to our named executive officers during fiscal year 2011. For fiscal year 2011, in accordance with the rules and regulations of the Securities and Exchange Commission for smaller reporting companies, we determined that the following officers were our named executive officers:

Charles P. Hadeed, our president, chief executive officer and chief operating officer;

John J. Zimmer, our vice president of finance and chief financial officer; and

John P. Hennessy, our vice president of sales and marketing.

Compensation Overview

Compensation Committee

The compensation committee of our board of directors is responsible for establishing, implementing and monitoring adherence to our compensation philosophy and objectives. The compensation committee ensures that the total compensation paid to our named executives is fair, reasonable and competitive. Generally, the types of compensation and benefits provided to our named executive officers are similar to those provided to our other executive officers.

Compensation Philosophy and Objectives

Our compensation program is designed to attract, motivate and retain a highly-qualified and effective senior management team. We believe that the most effective executive compensation program is one that is designed to reward the achievement of specific annual, long-term and strategic company goals, which align the interests of each of our named executive officers with those of our shareholders.

The objectives of the compensation program for our executive officers, including our named executive officers, are to motivate them to achieve our business objectives, to reward them for achievement, to foster teamwork, to support our core values and to contribute to our long-term success. Our compensation policies for our named executive officers are designed to link pay to both performance, taking into account the level of difficulty associated with each executive s responsibilities and shareholder returns over the long term. The compensation provided to our named executive officers remains competitive with the compensation paid to executives with similar responsibilities in publicly-traded companies of comparable size.

The key components of our compensation program for our named executive officers have historically been base salary, performance incentive cash bonuses (the amount of which is dependent on both company and individual performance, except for our chief executive officer, which amount is based only on company performance), stock options and restricted stock awards. We seek to ensure that total executive compensation corresponds to both corporate performance and the creation of shareholder value by placing our principal emphasis on variable, performance-based incentives through a combination of annual non-equity incentive awards (i.e., incentive cash bonuses) and long-term performance-based equity awards.

A significant percentage of total compensation for our named executive officers is placed at-risk through annual and long-term incentives. There are established guidelines and targets regarding the allocation between cash (short term) and equity (long-term) incentive compensation, which is contingent and variable, based on company results and individual performance.

Stock Ownership Objectives

To more closely align the efforts of our named executive officers with the interests of our shareholders, a minimum stock ownership objective has been set for our executive officers. This requires the named executives to work towards acquiring and maintaining specific levels of equity ownership interests in our common stock within a specified time frame.

Retirement Benefits

We have established certain retirement benefits for our employees, including our named executive officers, which we and the compensation committee believe are consistent with our goals of enhancing long-term performance by our employees. The costs of retirement benefits described below for our named executive officers are included in the All Other Compensation column of the 2011 Summary Compensation Table.

Long Term Savings and Deferred Profit Sharing Plan (Our 401(k) Plan). The Long Term Savings and Deferred Profit Sharing Plan is a tax-qualified defined contribution plan pursuant to which all U.S.-based employees, including the named executive officers, are eligible to participate. All employees are able to contribute the lesser of 100% of their annual salary or the limit prescribed by the Internal Revenue Service to the plan on a before-tax basis. We match 50% of the first 6% of pay that employees contribute to the plan. All participant contributions to the plan are fully-vested immediately, and all company matching contributions vest 33.3% per each year of qualifying service. The plan contains a discretionary deferred profit sharing component.

Non-Qualified Deferred Compensation. During fiscal year 2011, we did not have any non-qualified defined contribution or other deferred compensation plans.

Post-Retirement Plans. All employees in the United States are eligible under certain conditions to participate in the post-retirement health benefit plan. In addition, officers and former officers, including our named executive officers, are eligible to participate in dental and long-term care plans.

The post-retirement health benefit plan for officers is a group health plan that provides benefits to eligible retired officers and their spouses. Three kinds of benefits are provided under the plan: (1) long-term care insurance coverage; (2) medical and dental insurance coverage; and (3) medical and dental premium reimbursement benefits. Officers who retire from active employment with us on or after December 23, 2006 at age 55 or older with five or more years of continuous service and who do not work in any full-time employment (30 hours or more per week) after retirement are eligible to participate in the plan. Qualifying service is described as the individual s most recent period of continuous, uninterrupted employment with the company on or after the individual reaches age 50. Service with a business acquired by the company is not counted as qualifying service. For purposes of eligibility to participate in the plan, an individual is considered an officer if the individual has the title of vice president or higher or is the corporate controller.

2011 Summary Compensation Table

The following table presents certain information about the compensation of our named executive officers for services rendered to us in all capacities during fiscal years 2010 and 2011.

Name and Principal Position	Year	Salary (1)	Stock Awards (2)	Non-Equity Incentive Plan Compensation (3)	All Other Compensation (4)	Total
Charles P. Hadeed	2011	$ 327,126	$ 139,293	$ 137,598	$ 52,751	$ 656,768
President, Chief Executive Officer and Chief Operating Officer	2010	285,000	167,530	105,000	45,197	602,727
John J. Zimmer	2011	201,710	28,238	85,963	24,266	340,177
Vice President of Finance and Chief Financial Officer	2010	179,442	32,425	80,268	20,761	312,896
John P. Hennessy	2011	204,544	28,238	66,901	20,783	320,466
Vice President of Sales and Marketing	2010	179,249	23,990	62,821	18,961	285,021

(1) The amounts shown in this column include cash compensation earned and paid during fiscal year 2011.

(2) These amounts do not reflect the actual value realized by the recipient. The amounts shown in this column reflect the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 for restricted stock awards granted during each fiscal year, except that no estimates for forfeitures have been included. A discussion of the assumptions used to calculate grant date fair value are set forth in Note 1 (General Stock-Based Compensation) and Note 7 (Stock-Based Compensation) to the Consolidated Financial Statements in our annual reports on Form 10-K for the fiscal years ended March 26, 2011 and March 27, 2010. For fiscal year 2011, the value of the performance-based restricted stock disclosed in this column is based on the probable outcome of the performance conditions as of the date of grant. If the highest level of performance is achieved, the value of such awards is: Mr. Hadeed $146,916; Mr. Zimmer $35,298 and Mr. Hennessy $35,298.

(3) The amounts shown in this column reflect payments made to our named executive officers on May 20, 2011 under our performance incentive plan for fiscal year 2011.

(4) The amounts shown in this column reflect amounts paid by us to or on behalf of each named executive officer as an automobile allowance, club membership allowance, company 401(k) matching contributions, health, and dental and life insurance payments.

	Automobile Allowance	Club Membership Allowance	401(k) Match	Insurance
Charles P. Hadeed	$ 7,705	$ 4,300	$ 7,397	$ 33,349

John J. Zimmer	5,815	7,374	11,077
John P. Hennessy	5,815	5,047	9,921

Discussion of 2011 Summary Compensation Table

Long-Term Equity Incentive Compensation

On April 5, 2010, the compensation committee approved performance-based restricted stock awards to our named executive officers, as follows: Mr. Hadeed 16,790 shares, Mr. Zimmer 4,034 shares, and Mr. Hennessy 4,034 shares. The number of restricted shares granted to each named executive officer is generally targeted to a specific dollar amount that is reviewed periodically. Therefore, as our share price increases the shares awarded will typically decrease. In addition, in granting these awards the compensation committee took into account each named executive officer s progress towards achieving their respective stock ownership objective. The shares underlying these performance-based restricted stock awards will vest after three years subject to our achieving specific cumulative fully-diluted earnings per share objectives, which we refer to as EPS, over the eligible three-year period ending in fiscal year 2013. At such time, the holders of restricted stock will receive the following percentage of their respective restricted stock award if we meet certain pre-determined EPS thresholds:

Maximum cumulative EPS	125%
Target cumulative EPS	100%
Midpoint cumulative EPS	75%
Minimum cumulative EPS	50%

Performance at the minimum, midpoint and target levels must be achieved to earn that award level. Awards will be pro-rated in the event performance is above the target level but less than the maximum. Failure to achieve the minimum earnings per share will result in no shares awarded.

Also on April 5, 2010, in recognition of his leadership during a particularly challenging year, the compensation committee awarded Mr. Hadeed a restricted stock award of 3,109 shares that vested immediately.

Performance-Based Incentive Plan

We maintain a performance incentive plan, which is an annual cash incentive program designed to compensate key management members, as well as our named executive officers, based on their contributions to the achievement of specified corporate fiscal year financial objectives as well as achievement of individual performance goals. The performance incentive plan includes various incentive levels based on a participant s position within the company, accountability and impact on company operations, with target award opportunities that are established as a percentage of base salary earned during the fiscal year. For fiscal year 2011, the target performance-based cash incentive award amount as a percentage of base salary for each of our named executive officers was as follows: 55% for Mr. Hadeed, and 45% for each of Messrs. Zimmer and Hennessy.

Payment of performance-based cash incentive awards is expressly linked to successful achievement of specified pre-established corporate goals, which our board of directors annually approves, and, for all participants except our chief executive officer, individual performance goals, which are determined by our chief executive officer. In addition to the corporate level and individual performance goals, the performance incentive plan also provides guidelines for the calculation of annual incentive-based compensation, subject to compensation committee oversight and modification.

For fiscal year 2011, Mr. Hadeed s performance-based cash incentive award was based only on corporate financial results, as measured against specific pre-determined corporate financial objectives. For performance incentive plan awards for fiscal year 2011, the following percentages of Mr. Hadeed s performance-based cash incentive award were based on our achievement of the following corporate financial objectives: product gross profit 20%, service gross profit 30% and earnings per share 50%. All other performance incentive plan participants, including our other named executive officers, were evaluated 50% on the achievement of corporate financial objectives and 50% on individual performance as measured against approved objectives. The corporate financial objectives were the same as those utilized to measure our chief executive officer s performance. As described below, the corporate financial objectives are separated into five performance levels. Performance-based cash incentive awards can range from a minimum of 0% to a maximum of 150% of the targeted award depending on the level of performance achieved. An individual must achieve at least the minimum performance level against individual performance objectives to be eligible for any portion of the performance-based cash incentive award.

Generally, the target level for corporate financial results is set in alignment with our annual operating plan. Payment of the awards under the performance incentive plan is based upon the achievement of such objectives for the current year. With respect to the corporate performance portion of the payment award, participants in the performance incentive plan receive:

No payment for the corporate financial objective portion of the performance incentive plan award unless we achieve the minimum corporate performance level.

A pro rata payment, less than 100% of the target award opportunity, for the corporate financial objective portion of the performance incentive plan award if we achieve or exceed the minimum corporate performance level but do not achieve the target corporate performance level.

A payment of 100% of the target award opportunity for the corporate financial objective portion of the performance incentive plan award if we achieve the target corporate performance level.

A pro rata payment of at least 100% but less than 150% of the target award opportunity for the corporate financial objective portion of the performance incentive plan award if we exceed the target corporate performance level but do not achieve the maximum corporate performance level.

A payment of 150% of the target award opportunity for the corporate financial objective portion of the performance incentive plan award if we achieve or exceed the maximum corporate performance level.

Upon completion of the fiscal year, the chief executive officer and chief financial officer review our performance against each pre-established corporate financial objective under the performance incentive plan, comparing the fiscal year results to the pre-determined minimum, target and maximum levels for each objective, and an overall percentage for the corporate financial objectives is calculated. The results of our financial performance are then provided to, and reviewed by, the board.

With respect to the individual performance portion of the payment award, our chief executive officer evaluates each officer s accomplishments relative to their individual objectives, calculates a performance rating and provides summaries of performance and the award amount to the compensation committee based on the performance incentive plan previously approved by the committee. Depending on the named executive officer s position, individual performance goals for our named executive officers could include product segment gross margin, calibration sales, calibration units per direct labor hour, calibration quality measures and operating cash flow, as well as other objectives designed to improve our efficiency, profitability, quality, customer service or performance.

For fiscal year 2011, we achieved the following levels of performance for each of the pre-determined corporate financial objectives: product gross profit 97%; service gross profit 28%; and earnings per share 100%. Following the compensation committee s review of the achievement of corporate financial objectives and individual performance objectives for fiscal year 2011, the compensation committee awarded the following amounts of performance-based cash incentive compensation to each of our named executive officers: Mr. Hadeed $137,598, Mr. Zimmer $85,963 and Mr. Hennessy $66,901. These incentive awards were earned based on performance during fiscal year 2011 and were paid on May 20, 2011. The amounts earned are reflected in the Non-Equity Incentive Plan Compensation column of the 2011 Summary Compensation Table.

Outstanding Equity Awards at March 26, 2011

The table below presents information about the number of unexercised stock options and the number and value of unvested restricted stock awards held by our named executive officers as of March 26, 2011.

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price	Option Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Charles P. Hadeed	20,000		$ 2.20	10/27/2013		
	20,000		2.89	10/17/2014		
	6,103		4.26	8/15/2015		
	7,042		5.68	8/07/2016		
	100,000		5.24	4/09/2017		
	19,250	28,878(1)	7.72	7/25/2017		
					29,346(2)	$ 234,764
John J. Zimmer	6,000		5.80	8/01/2016		
	12,032	18,048(1)	7.72	7/25/2017		
					6,268(2)	50,144
John P. Hennessy	4,000	6,000(3)	6.00	1/29/2018		
	2,622	10,488(4)	6.75	5/05/2018		
					5,425(2)	43,396

(1) This option vested 20% in July 2009 and 20% in July 2010 and vests 60% in July 2011.

(2) These restricted stock awards are performance-based and will vest after three years subject to our achieving specific cumulative fully-diluted EPS objectives over the three-year period ending in fiscal year 2012 and fiscal year 2013, respectively. At such time, the holders of the restricted stock will receive the percentage of their restricted stock award that corresponds to the level of cumulative EPS achieved. For more information on performance-based restricted stock awards, see Long-Term Equity Incentive Compensation under the heading Discussion of the 2011 Summary Compensation Table.

(3) This option vested 20% in January 2010 and 20% in January 2011 and vests 60% in January 2012.

(4) This option vested 20% in May 2010, and vests 20% in May 2011 and 60% in May 2012.

Payments upon Termination or Change in Control

A change of control occurs under Mr. Hadeed s change of control severance agreement upon the occurrence of any of the following events: (i) any person or group acquires more than fifty percent of the total fair market value or total voting power of our outstanding common stock during a 12-month period; (ii) any person or group acquires more than thirty-five percent of the total voting power of our outstanding common stock during a 12-month period; (iii) a majority of our directors are replaced during a 12-month period by directors that are not endorsed by the board of directors; or (iv) any person or group acquires forty percent or more of our total assets during a 12-month period.

Pursuant to this agreement, if a change in control of the company occurs and Mr. Hadeed s employment is terminated for any reason (other than voluntary resignation, death, disability, or retirement, or termination by the company for certain reasons) during the period beginning with the agreement for an announcement of a proposed change in control and ending 24 months following the change in control, we would be required to continue to pay him his full salary and bonus and continue his benefits for a period of 24 months following the date of termination or employment, and all stock grants, stock options and similar arrangements would immediately vest.

Assuming Mr. Hadeed s employment was terminated on a change in control as of March 26, 2011, he would be entitled to receive:

His annual base salary for 24 months;

His target annual bonus for 24 months;

The value of his annual benefits and allowances for 24 months;

The value of his unvested performance-based restricted stock awards;

The income tax gross up on his unvested performance-based stock awards; and

The value of all unvested options, which would vest immediately.

In addition, upon a change in control of the company, as defined under the Restated Plan, each of our other named executive officers would be entitled to immediate vesting of all unvested stock options and performance-based restricted stock.

Also, as described above under the heading Post-Retirement Plans, upon retirement at age 55 or older after five or more years of continuous service, each of our named executive officers is eligible to participate in the post-retirement health benefit plan for officers.

DIRECTOR COMPENSATION

Cash Compensation

Each of our non-employee directors receives an annual cash retainer of $10,000 per year, $1,500 for attendance at each board meeting, and $500 for attendance at each committee meeting on which the director serves. Our chairman of the board, lead director and each of our directors who serve as the chairman of the audit committee and chairman of the compensation committee receive additional fees for such service. For fiscal year 2011, the chairman of the board received an additional $20,000, the lead director received an additional $10,000, the chairman of the audit committee received an additional $5,000 and the chairman of the compensation committee received an additional $2,500.

Once the board of directors determines that our chairman of the board is independent pursuant to the independence standards of the Nasdaq Stock Market, the lead director position will be eliminated and the chairman will receive an additional $30,000 for a total annual retainer of $40,000. In May 2011, the board made this determination.

Beginning in fiscal year 2011, each of our non-employee directors also receives an annual performance-based payment of either $2,500, $5,000, or $7,500. This performance-based payment is tied to the company s stock price measured against a base price, which is the trading day average for the fourth quarter of the prior fiscal year. Based on the $7.01 trading day average for the fourth quarter of fiscal year 2010, if the trading day average for fiscal year 2011 was 10% greater or less than the $7.01 base price, or between $6.30 and $7.70, the earned amount of the performance-based payment would be $5,000; if the trading day average was above $7.70, the earned amount of the performance-based payment would be $7,500; and if the trading day average was below $6.30, the earned amount of the performance-based payment would be $2,500. Payment to any director who has not met his or her stock ownership requirement is limited to $2,500. Based on the trading day average of $7.40 for fiscal year 2011, each non-employee director received a $5,000 performance-based payment for fiscal year 2011. These payments were made on May 18, 2011.

Our non-employee directors are reimbursed for travel and other expenses incurred in the performance of their duties.

Equity Compensation

All warrants authorized for issuance under the Transcat, Inc. Amended and Restated Directors Warrant Plan have been granted. Outstanding warrants continue to vest and are exercisable in accordance with the terms of the plan.

In August 2006, our shareholders approved an amendment to the 2003 Incentive Plan permitting directors to participate in this plan.

Each of our non-employee directors is paid an annual cash payment of $13,200 in lieu of an annual stock option award at the board meeting following our annual meeting of shareholders. Newly-elected non-employee directors are eligible to receive an initial five-year stock option grant of 10,000 shares of common stock pursuant to the 2003 Incentive Plan that will vest immediately; however, 2,000 shares will expire each year if unexercised.

Stock Ownership Objectives

In order to more closely align the interests of our directors with the interests of our shareholders, on May 5, 2008, the compensation committee established minimum stock ownership objectives that require our directors to work towards acquiring and maintaining specific levels of equity ownership interests in our common stock within a specified time frame. The stock ownership objective for directors is common stock valued at 2.5 times their annual cash retainer.

We expect our directors to be in compliance with the stock ownership objectives within five years of the adoption of the objectives or for those individuals who subsequently become directors, from the date they are elected to the board. The compensation committee monitors the progress made by directors in achieving their stock ownership objectives.

2011 Director Summary Compensation Table

The table below presents information about the compensation paid to our non-employee directors for their service during fiscal year 2011.

Name	**Fees Earned or Paid in Cash (1)**	**Total (2)**
Francis R. Bradley	$ 37,700	$ 37,700
Richard J. Harrison	42,700	42,700
Nancy D. Hessler	36,700	36,700
Paul D. Moore	37,700	37,700
Harvey J. Palmer	38,200	38,200
Alan H. Resnick	39,700	39,700
Carl E. Sassano	55,700	55,700
John T. Smith	46,700	46,700

(1) The amounts shown include all fees earned by the directors during fiscal year 2011, including their annual retainer, all committee and board meeting fees and their stock performance-based payment.

(2) The table below presents the aggregate number of outstanding stock options and warrants (both vested and unvested) for each of our non-employee directors as of March 26, 2011:

	Stock Option Awards	**Warrants**

Francis R. Bradley	4,000	2,400
Richard J. Harrison	4,000	2,400
Nancy D. Hessler	4,000	2,400
Paul D. Moore	4,000	2,400
Harvey J. Palmer	4,000	2,400
Alan H. Resnick	4,000	2,400
Carl E. Sassano	79,858	
John T. Smith	4,000	2,400

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The table below presents certain information as of July 18, 2011 about the persons known by us to be the record or beneficial owner of more than 5% of our common stock. Percentages are based on 7,289,530 shares issued and outstanding.

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned	Percent of Class
NSB Advisors LLC 200 Westage Business Center Drive, Suite 228 Fishkill, New York 12524 (1)	4,460,428	61.2%
Utility Service Holding Co., Inc. P.O. Box 120 Warthen, Georgia 31094 (2)	458,647	6.3%

(1) This information as to the beneficial ownership of shares of our common stock is based on the Schedule 13G dated January 10, 2011 filed with the Securities and Exchange Commission by NSB Advisors LLC, an Investment Advisor registered under section 203 of the Investment Advisers Act of 1940. NSB Advisors LLC reports sole dispositive power with respect to all 4,460,428 shares.

(2) This information as to the beneficial ownership of shares of our common stock is based on the Schedule 13G dated February 23, 2011 filed with the Securities and Exchange Commission by Utility Service Holding Co., Inc. Utility Service Holding Co., Inc. reports sole voting and sole dispositive power with respect to all 458,647 shares.

SECURITY OWNERSHIP OF MANAGEMENT

The table below presents certain information as of July 18, 2011 about shares of our common stock held by (1) each of our directors; (2) each of our named executive officers (as defined under the heading Executive Compensation); and (3) all of our directors and executive officers as a group.

Name of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned (1)	Percent of Class (1)
Directors		
Francis R. Bradley (2)	28,048	
Charles P. Hadeed (3)	294,059	3.9%
Richard J. Harrison (2)	26,400	
Nancy D. Hessler (4)	32,204	
Paul D. Moore (2)	49,198	
Harvey J. Palmer (2)	77,610	1.1
Alan H. Resnick (2)	20,400	
Carl E. Sassano (5)	245,779	3.3

John T. Smith (6)	36,016	
Named Executive Officers		
John P. Hennessy (7)	20,679	
John J. Zimmer (8)	63,314	
All directors and executive officers as a group (15 persons)(9)	1,062,319	13.7

(1) As reported by such persons as of July 18, 2011, with percentages based on 7,289,530 shares issued and outstanding except where the person has the right to receive shares within the next 60 days (as indicated in the other footnotes to this table), which would increase the number of shares owned by such person and the number of shares outstanding. Under the rules of the Securities and Exchange Commission, beneficial ownership is deemed to include shares for which an individual, directly or indirectly, has or shares voting or dispositive power, whether or not they are held for the individual s benefit, and includes shares that may be acquired within 60 days, including, but not limited to, the right to acquire shares by the exercise

of options or warrants. Shares that may be acquired within 60 days are referred to in the footnotes to this table as presently exercisable options or presently exercisable warrants. Unless otherwise indicated in the other footnotes to this table, each shareholder named in the table has sole voting and sole investment power with respect to the all of the shares shown as owned by the shareholder. We have omitted percentages of less than 1% from the table.

(2) The amount shown includes (i) a presently exercisable warrant to purchase 2,400 shares; and (ii) a presently exercisable option to purchase 4,000 shares.

(3) Mr. Hadeed, who is listed in the table under Directors, is also a named executive officer. The amount shown includes presently exercisable options to purchase 201,273 shares and excludes performance-based restricted stock awards of 33,506 shares and 16,790 shares, respectively.

(4) The amount shown includes a presently exercisable option to purchase 4,000 shares.

(5) The amount shown includes presently exercisable options to purchase 79,858 shares.

(6) The amount shown includes (i) 12,150 shares held jointly by Mr. Smith and his wife; (ii) a presently exercisable warrant to purchase 2,400 shares; and (iii) a presently exercisable option to purchase 4,000 shares.

(7) The amount shown includes presently exercisable options to purchase 9,244 shares and excludes performance-based restricted stock awards of 4,798 shares, 4,034 shares, and 3,694 shares, respectively.

(8) The amount shown includes presently exercisable options to purchase 36,080 shares and excludes performance-based restricted stock awards of 6,485 shares, 4,034 shares, and 11,848 shares, respectively.

(9) The amount shown includes presently exercisable options and warrants to purchase 448,138 shares.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, officers and greater-than-10% shareholders to file with the Securities and Exchange Commission reports of ownership and changes in ownership regarding their holdings in company securities. For purposes of Section 16(a), our officers are Mr. Hadeed, Mr. Zimmer and Mr. Hennessy.

During fiscal year 2011, all of our directors and officers complied in a timely manner with the filing requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended, except for Mr. Moore and Mr. Smith who each filed one late report disclosing two transactions. In making this statement, we have relied upon the written representations of our directors and officers, and copies of the reports that they have filed with the Securities and Exchange Commission.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Policies and Procedures for Review, Approval or Ratification of Related Person Transactions

Our board of directors has adopted a written policy for transactions with related persons. Pursuant to the policy, the audit committee reviews and, when appropriate, approves any relationships or transactions in which the company and our directors and executive officers or their immediate family members are participants. Existing related person transactions, if any, are reviewed at least annually by the audit committee. Any director with an interest in a related person transaction is expected to recuse him or herself from any consideration of the matter.

During its review of such relationships and transactions, the audit committee considers (1) the nature of the related person s interest in the transaction; (2) the material terms of the transaction, including the amount and type of transaction; (3) the importance of the transaction to the related person and to the company; (4) whether the transaction would impair the judgment of a director or executive officer to act in the best interest of the company; and (5) any other matters the committee deems appropriate.

In addition, to the extent that the transaction involves an independent director, consideration is also given, as applicable, to the listing standards of the Nasdaq Stock Market and other relevant rules related to independence.

SHAREHOLDER PROPOSALS FOR 2012 ANNUAL MEETING

Proposals Submitted for Inclusion in Our Proxy Materials

We will include in our proxy materials for the 2012 annual meeting of shareholders, shareholder proposals that comply with Rule 14a-8 under the Securities Exchange Act of 1934, as amended. Among other things, Rule 14a-8 requires that we receive such proposals no later than 120 days prior to the one-year anniversary of this proxy statement. Thus, for the 2012 annual meeting of shareholders, we must receive shareholder proposals submitted for inclusion in our proxy materials no later than March 24, 2012. We will not include in our proxy materials shareholder proposals received after this date. Shareholder proposals submitted for inclusion in our proxy materials should be mailed to the following address: Transcat, Inc., 35 Vantage Point Drive, Rochester, New York 14624, Attention: Corporate Secretary.

Proposals Not Submitted for Inclusion in Our Proxy Materials

Shareholder proposals that are not submitted for inclusion in our proxy materials pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended, as described above, may be brought before the 2012 annual meeting of shareholders in accordance with Rule 14a-4(c) under the Securities Exchange Act of 1934, as amended. Pursuant to Rule 14a-4(c), we must receive such proposals no later than 45 days prior to the one-year anniversary of this proxy statement. Thus, for the 2012 annual meeting of shareholders, we must receive shareholder proposals that are not submitted for inclusion in our proxy materials no later than June 7, 2012. In accordance with Rules 14a-4(c) and 14a-8, we will not permit shareholder proposals that do not comply with the foregoing notice requirement to be brought before the 2012 annual meeting of shareholders. Shareholder proposals that are not submitted for inclusion in our proxy statement should be mailed to the following address: Transcat, Inc., 35 Vantage Point Drive, Rochester, New York 14624, Attention: Corporate Secretary.

OTHER MATTERS

As of the date of this proxy statement, the board of directors does not know of any other matters that are to be presented for action at the annual meeting. Should any other matter come before the annual meeting, the persons named in the enclosed proxy will have discretionary authority to vote all proxies with respect to the matter in accordance with their judgment.

BY ORDER OF THE BOARD OF DIRECTORS

Charles P. Hadeed
President, Chief Executive Officer
and Chief Operating Officer

Rochester, New York
July 22, 2011

APPENDIX A

TRANSCAT, INC.

2003 INCENTIVE PLAN

Effective as of August 19, 2003
Amended effective as of August 15, 2006
Amended and Restated effective as of September 13, 2011

ARTICLE 1

PURPOSE AND TERM OF PLAN

Section 1.1 *Purpose*. The purpose of the Plan is to recruit and retain selected Employees, Directors and Consultants and to motivate such Employees, Directors and Consultants to put forth their maximum efforts toward the continued growth, profitability, and success of the Company by providing incentives to such Employees, Directors and Consultants through the ownership and performance of Common Stock.

Section 1.2 *Term*. The Plan was approved by the Board on June 24, 2003, and became effective upon the date of the approval by Transcat s shareholders at the 2003 Annual Meeting of the Shareholders. The Plan was amended effective upon the date of the approval by Transcat s shareholders at the 2006 Annual Meeting of the Shareholders. Subject to the approval of Transcat s shareholders, the Plan is being extended pursuant to the amendment and restatement approved by the Board on June 13, 2011, such that no Awards shall be granted under the Plan after the tenth anniversary of approval by Transcat s shareholders at the 2011 Annual Meeting of the Shareholders. The term and exercise of Awards granted prior to such date may extend beyond that date.

ARTICLE 2

DEFINITIONS

In any necessary construction of a provision of this Plan, the masculine gender may include the feminine, and the singular may include the plural, and vice versa.

Section 2.1 *Approved Reason* means a reason for terminating employment with the Company which, in the opinion of the Committee, is in the best interests of the Company.

Section 2.2 *Award* means any form of stock option, Stock Appreciation Right, Stock Award, Performance Award, or other incentive award granted under the Plan, whether singly, in combination, or in tandem, to a Participant by the Committee pursuant to such terms, conditions, restrictions and/or limitations, if any, as the Committee may establish by the Award Notice or otherwise.

Section 2.3 *Award Notice* means the written or electronic document establishing the terms, conditions, restrictions, and/or limitations of an Award in addition to those established by this Plan and by the Committee s exercise of its administrative powers. The Committee will establish the form of the written or electronic document in the exercise of its sole and absolute discretion.

Section 2.4 *Board* means the Board of Directors of Transcat.

Section 2.5 *Cause* means (a) the willful and continued failure by a Participant to substantially perform his or her duties with the Company after written warnings identifying the lack of substantial performance are delivered to the Participant by the Company to specifically identify the manner in which the Company believes that the Participant has not substantially performed his or her duties, (b) the willful engaging by a Participant in illegal conduct which is materially and demonstrably injurious to the Company, (c) the commission of a felony by a Participant, (d) the breach by a Participant of a material fiduciary duty owed by that Participant to the Company, (e) the intentional unauthorized disclosure by a Participant to any person of confidential information or trade secrets of a material nature relating to the Company s business, or (f) the engaging by a Participant in any conduct that the Company s written rules, regulations or policies specify as constituting grounds for discharge.

Section 2.6 *CEO* means the Chief Executive Officer of Transcat.

Section 2.7 *Change In Control* means (i) any person within the meaning of Section 14(d) of the Exchange Act, other than Transcat, a Subsidiary, or any employee benefit plan(s) sponsored by Transcat or any Subsidiary, is or has become the beneficial owner, as defined in Rule 13d-3 under the Exchange Act, directly or indirectly, of 50 percent or more of the combined voting power of the outstanding securities of Transcat ordinarily having the right to vote at the election of directors; (ii) individuals who constitute the Board on August 19, 2011 (the Incumbent Board) have ceased for any reason to constitute at least a majority thereof (or a majority of the Board as then constituted), provided that any person becoming a director subsequent to August 19, 2003 whose election, or nomination for election by Transcat s shareholders, was approved by a vote of at least three-quarters (3/4) of the directors comprising the Incumbent Board (either by a specific vote or by approval of the proxy statement of Transcat in which such person is named as a nominee for director without objection to such nomination) shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board; (iii) the closing of a reorganization, merger or consolidation of Transcat, other than one with respect to which all or substantially all of those persons who were the beneficial owners, immediately prior to such reorganization, merger or consolidation, of outstanding securities of Transcat ordinarily having the right to vote in the election of directors own, immediately after such transaction, more than three-quarters (3/4) of the outstanding securities of the resulting corporation ordinarily having the right to vote in the election of directors; (iv) the closing of a sale or other disposition of all or substantially all of the assets of Transcat, other than to a Subsidiary; or (v) the complete liquidation and dissolution of Transcat.

Notwithstanding the foregoing, a Change In Control shall not be deemed to occur as a result of any event or transaction to the extent that treating such event or transaction as a Change In Control would cause any tax to become due under Section 409A of the Code.

Section 2.8 *Change In Control Price* means the highest closing price per share paid for the purchase of Common Stock in a national securities market during the 90-day period ending on the date the Change In Control occurs; provided, however, that in the case of stock options and Stock Appreciation Rights, the Change In Control Price will be in all cases the Fair Market Value of the Common Stock on the date such stock option or Stock Appreciation Right is exercised.

Section 2.9 *Code* means the Internal Revenue Code of 1986, as amended from time to time, including the regulations thereunder and any successor provisions and the regulations thereto.

Section 2.10 *Committee* means the Compensation, Benefits and Stock Options Committee of the Board, or such other Board committee as may be designated by the Board to administer the Plan; provided that the Committee shall consist of two or more Directors, each of whom is: (a) a Non-Employee Director within the meaning of Rule 16b-3 under the Exchange Act; (b) an outside director within the meaning of the definition of such term as contained in Treasury Regulation Section 1.162-27(e)(3) or any successor definition adopted under Section 162(m) of the Code; and (c) for as long as the Common Stock is traded on the Nasdaq Stock Market, a Independent Director under the rules of the Nasdaq Stock Market.

Section 2.11 *Common Stock* means the common stock, $.50 par value per share, of Transcat that may be newly issued or treasury stock.

Section 2.12 *Company* means Transcat and its Subsidiaries.

Section 2.13 *Consultants* means the consultants, advisors and independent contractors retained by the Company.

Section 2.14 *Covered Employee* means an Employee who is, or is determined by the Committee to likely become, a covered employee within the meaning of Section 162(m) of the Code.

Section 2.15 *Director* means a non-Employee member of the Board.

Section 2.16 *Disability,* for a Participant who is an Employee, means a disability under the terms of the long-term disability plan maintained by the Participant s employer, or in the absence of such a plan, the

Transcat, Inc. Long Term Disability Plan; and for all other Participants, means a disability under the Transcat, Inc. Long Term Disability Plan.

Section 2.17 *Effective Date* means the date an Award is determined to be effective by the Committee upon its grant of such Award, which date shall be set forth in the applicable Award Notice.

Section 2.18 *Employee* means any person employed by the Company.

Section 2.19 *Exchange Act* means the Securities Exchange Act of 1934, as amended from time to time, including the rules thereunder and any successor provisions and the rules thereto.

Section 2.20 *Fair Market Value* means, except as otherwise provided by the Committee, as of any given date, the closing price for the shares on the Nasdaq Stock Market for the specified date, or, if the shares were not traded on such date, then on the next preceding date on which the shares were traded, or if the shares are no longer traded on the Nasdaq Stock Market, then the fair market value determined by the Committee, in good faith, based upon a reasonable method of valuation adopted by the Committee, or such method as may be permitted by the Code or the regulations or rulings thereunder.

Section 2.21 *Participant* means either an Employee, Director or Consultant to whom an Award has been granted by the Committee under the Plan.

Section 2.22 *Performance Awards* means the Stock Awards, performance units and performance shares granted to Covered Employees pursuant to Article 9. All Performance Awards are intended to qualify as performance-based compensation under Section 162(m) of the Code.

Section 2.23 *Performance Criteria* means the one or more criteria that the Committee shall select for purposes of establishing the Performance Goal(s) for a Performance Period. The Performance Criteria that will be used to establish such Performance Goal(s) shall include one or more of the following objective corporate-wide or subsidiary, division, operating unit or individual measures, stated in either absolute terms or relative terms: (a) increase in total revenue or product revenue, (b) earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization (EBITDA) or net earnings (either before or after interest, taxes, depreciation and/or amortization), (c) return on assets, return on capital or return on shareholders equity, (d) total shareholder return, (e) gross margin, (f) earnings per share, (g) net income, (h) operating income, (i) net profit, (j) operating profits, (k) profits before tax, (l) ratio of debt to debt plus equity, (m) economic value added, (n) ratio of operating earnings to capital spending, free cash flow, return on assets, equity or shareholders equity, (o) Common Stock price per share, and (p) strategic business criteria, consisting of one or more objectives such as (i) geographic business expansion goals, (ii) cost targets, (iii) customer satisfaction ratings, (iv) reductions in errors and omissions, (v) reductions in lost business, (vi) supervision of litigation, (vii) satisfactory audit scores, (viii) productivity, (ix) efficiency, (x) budget and expense management and (xi) goals relating to acquisitions or divestitures, or any combination of the foregoing. To the extent required by Section 162(m) of the Code, the Committee shall, within the time period required by Section 162(m) of the Code (generally, the first 90 days of a Performance Period), define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such Performance Period.

Section 2.24 *Performance Formula* means, for a Performance Period, the one or more objective formulas (expressed as a percentage or otherwise) applied against the relevant Performance Goal(s) to determine, with regards to the Award of a particular Participant, whether all, some portion but less than all, or none of the Award has been earned for the Performance Period.

Section 2.25 *Performance Goals* means, for a Performance Period, the one or more goals established by the Committee for the Performance Period based upon the Performance Criteria. Unless specified otherwise by the Committee (a) in the Award Notice at the time the Award is granted or (b) in such other document setting forth the Performance Goals at the time the Performance Goals are established, the Committee shall consider appropriately making adjustments in the method of calculating the attainment of Performance Goals for a Performance Period as follows: (i) to exclude restructuring and/or other nonrecurring charges; (ii) to exclude exchange rate effects, as applicable, for non-U.S. dollar denominated Performance Goals; (iii) to exclude the effects of changes to generally accepted accounting principles; (iv) to exclude the effects of any statutory adjustments to corporate tax rates; (v) to exclude the effects of any extraordinary items as determined under generally accepted accounting principles; (vi) to exclude the dilutive effects of acquisitions or joint ventures; (vii) to assume that any business divested by the Company achieved performance objectives at targeted levels during the balance of a Performance Period following such divestiture; (viii) to exclude the effect of any change in the outstanding shares of common stock of the Company by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to common shareholders other than regular cash dividends; (ix) to exclude the effects of equity-based compensation and/or the award of bonuses under the Company s bonus plans; and (x) to exclude the effect of any other unusual, non-recurring gain or loss or other extraordinary item. Such determinations shall be made within the time prescribed by, and otherwise in compliance with, Section 162(m) of the Code.

Section 2.26 *Performance Period* means the one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant s right to and the payment of a Performance Award.

Section 2.27 *Plan* means the Transcat, Inc. 2003 Incentive Plan, as amended and restated.

Section 2.28 *Retirement* means, in the case of a Participant employed by the Company, voluntary termination of employment on or after attaining age 55.

Section 2.29 *Stock Award* means an Award granted pursuant to Article 8 in the form of shares of Common Stock, restricted shares of Common Stock, and/or Units of Common Stock.

Section 2.30 *Subsidiary* means a corporation or other business entity in which Transcat directly or indirectly has an ownership interest of 50 percent or more, except that with respect to incentive stock options, Subsidiary shall mean subsidiary corporation as defined in Section 424(f) of the Code.

Section 2.31 *Transcat* means Transcat, Inc., an Ohio corporation.

Section 2.32 *Unit* means a bookkeeping entry used by the Company to record and account for the grant of the following Awards until such time as the Award is paid, canceled, forfeited or terminated, as the case may be: Units of Common Stock, performance units and performance shares which are expressed in terms of Units of Common Stock.

ARTICLE 3

ELIGIBILITY

Section 3.1 *In General*. Subject to Section 3.2, all Employees, Directors and Consultants are eligible to participate in the Plan. The Committee may select, from time to time, Participants from those Employees who, in the opinion of the Committee, can further the Plan s purposes. In addition, the Committee may select, from time to time, Participants from those Directors and Consultants (who may or may not be Committee members) who, in the opinion of the Committee, can further the Plan s purposes. Once a Participant is so selected, the Committee shall determine the type(s) of Awards to be made to the Participant and shall establish in the related Award Notice(s) the terms, conditions, restrictions and/or limitations, if any, applicable to the Award(s) in addition to those set forth in this Plan and the administrative rules and regulations issued by the Committee.

Section 3.2 *Incentive Stock Options*. Only Employees shall be eligible to receive incentive stock options (within the meaning of Section 422 of the Code).

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ARTICLE 4

PLAN ADMINISTRATION

Section 4.1 *Responsibility*. The Committee shall have total and exclusive responsibility to control, operate, manage and administer the Plan in accordance with its terms.

Section 4.2 *Authority of the Committee*. The Committee shall have all the authority that may be necessary or helpful to enable it to discharge its responsibilities with respect to the Plan. Without limiting the generality of the preceding sentence, the Committee shall have the exclusive right to: (a) select the Participants and determine the type of Awards to be made to Participants, the number of shares subject to Awards and the terms, conditions, restrictions and limitations of the Awards; (b) interpret the Plan; (c) determine eligibility for participation in the Plan; (d) decide all questions concerning eligibility for and the amount of Awards payable under the Plan; (e) construe any ambiguous provision of the Plan; (f) correct any default; (g) supply any omission; (h) reconcile any inconsistency; (i) issue administrative guidelines as an aid to administer the Plan and make changes in such guidelines as it from time to time deems proper; (j) make regulations for carrying out the Plan and make changes in such regulations as it from time to time deems proper; (k) determine whether Awards should be granted singly, in combination or in tandem; (l) to the extent permitted under the Plan, grant waivers of Plan terms, conditions, restrictions, and limitations; (m) to the extent permitted by Section 409A of the Code, accelerate the vesting, exercise, or payment of an Award or the Performance Period of an Award when such action or actions would be in the best interest of the Company; (n) to the extent permitted by applicable law and the listing standards of any exchange upon which the Common Stock is listed, establish such other types of Awards, besides those specifically enumerated in Article 5 hereof, which the Committee determines are consistent with the Plan s purpose; (o) subject to Section 7.7(b), grant Awards in replacement of Awards previously granted under this Plan or any other executive compensation plan of the Company; (p) establish and administer the Performance Goals and certify whether, and to what extent, they have been attained; (q) determine the terms and provisions of any agreements entered into hereunder; (r) take any and all other action it deems necessary or advisable for the proper operation or administration of the Plan; and (s) make all other determinations it deems necessary or advisable for the administration of the Plan, including factual determinations.

Section 4.3 *Discretionary Authority*. The Committee shall have full discretionary authority in all matters related to the discharge of its responsibilities and the exercise of its authority under the Plan including, without limitation, its construction of the terms of the Plan and its determination of eligibility for participation and Awards under the Plan. It is the intent of Plan that the decisions of the Committee and its actions with respect to the Plan shall be final, binding and conclusive upon all persons having or claiming to have any right or interest in or under the Plan.

Section 4.4 *Section 162(m) of the Code*. With regards to all Covered Employees, the Plan shall, for all purposes, be interpreted and construed in accordance with Section 162(m) of the Code.

Section 4.5 *Action by the Committee*. The Committee may act only by a majority of its members. Any determination of the Committee may be made, without a meeting, by a writing or writings signed by all of the members of the Committee. In addition, the Committee may authorize any one or more of its number to execute and deliver documents on behalf of the Committee.

Section 4.6 *Allocation and Delegation of Authority*. The Committee may allocate all or any portion of its responsibilities and powers under the Plan to any one or more of its members, the CEO or other senior members of management as the Committee deems appropriate and may delegate all or any part of its responsibilities and powers to any such person or persons, provided that any such allocation or delegation be in writing; provided, however, that only the Committee may select and grant Awards to Participants who are subject to Section 16 of the Exchange Act or are Covered Employees. The Committee may revoke any such allocation or delegation at any time for any reason with or without prior notice.

ARTICLE 5

FORM OF AWARDS

Section 5.1 <u>In General</u>. Awards may, at the Committee s sole discretion, be granted in the form of stock options and Stock Appreciation Rights pursuant to Article 7, Stock Awards pursuant to Article 8, Performance Awards pursuant to Article 9, any form established by the Committee pursuant to Section 4.2(n), or a combination thereof. All Awards shall be subject to the terms, conditions, restrictions and limitations of the Plan. The Committee may, in its sole judgment, subject an Award to such other terms, conditions, restrictions and/or limitations (including, but not limited to, the time and conditions of exercise and restrictions on transferability and vesting), provided they are not inconsistent with the terms of the Plan. Awards under a particular Article of the Plan need not be uniform and Awards under two or more Articles may be combined into a single Award Notice. Any combination of Awards may be granted at one time and on more than one occasion to the same Participant.

Section 5.2 <u>Foreign Jurisdictions</u>.

(a) *Special Terms.* In order to facilitate the making of any Award to Participants who are employed or retained by the Company outside the United States as Employees, Directors or Consultants (or who are foreign nationals temporarily within the United States), the Committee may provide for such modifications and additional terms and conditions (special terms) in Awards as the Committee may consider necessary or appropriate to accommodate differences in local law, policy or custom or to facilitate administration of the Plan. The special terms may provide that the grant of an Award is subject to (1) applicable governmental or regulatory approval or other compliance with local legal requirements and/or (2) the execution by the Participant of a written instrument in the form specified by the Committee, and that in the event such conditions are not satisfied, the grant shall be void. The special terms may also provide that an Award shall become exercisable or redeemable, as the case may be, if an Employee s employment or Director or Consultant s relationship with the Company ends as a result of workforce reduction, realignment or similar measure and the Committee may designate a person or persons to make such determination for a location. The Committee may adopt or approve sub-plans, appendices or supplements to, or amendments, restatements, or alternative versions of, the Plan as it may consider necessary or appropriate for purposes of implementing any special terms, without thereby affecting the terms of the Plan as in effect for any other purpose; provided, however, no such sub-plans, appendices or supplements to, or amendments, restatements, or alternative versions of, the Plan shall: (a) increase the limitations contained in Section 6.3; (b) increase the number of available shares under Section 6.1; (c) cause the Plan to cease to satisfy any conditions of Rule 16b-3 under the Exchange Act or, with respect to Covered Employees, Section 162(m) of the Code; or (d) revoke, remove or reduce any vested right of a Participant without the prior written consent of such Participant.

(b) *Currency Effects.* Unless otherwise specifically determined by the Committee, all Awards and payments pursuant to such Awards shall be determined in U.S. currency. The Committee shall determine, in its discretion, whether and to the extent any payments made pursuant to an Award shall be made in local currency, as opposed to U.S. dollars. In the event payments are made in local currency, the Committee may determine, in its discretion and without liability to any Participant, the method and rate of converting the payment into local currency.

(c) *Modifications to Awards.* The Committee shall have the right at any time and from time to time and without prior notice to modify outstanding Awards to comply with or satisfy local laws and regulations or to avoid costly governmental filings. By means of illustration, but not limitation, the Committee may restrict the method of exercise of an Award to facilitate compliance with applicable securities laws or exchange control filings, laws or regulations.

(d) *No Acquired Rights.* No Employee in any country shall have any right to receive an Award, except as expressly provided for under the Plan. All Awards made at any time are subject to the prior approval of the Committee.

ARTICLE 6

SHARES SUBJECT TO PLAN

Section 6.1 *Available Shares*. The maximum number of shares of Common Stock that shall be available for grant of Awards under the Plan (including incentive stock options) during its term shall be 982,000 shares. Such amount shall be subject to adjustment as provided in Section 6.2. Any shares of Common Stock related to Awards which terminate by expiration, forfeiture, cancellation or otherwise without the issuance of such shares, are settled in cash in lieu of Common Stock, or are exchanged with the Committee s permission for Awards not involving Common Stock, shall be available again for grant under the Plan. If the exercise price of any stock option granted under the Plan or the tax withholding requirements with respect to any stock option granted under the Plan are satisfied by tendering shares of Common Stock to the Company (by either actual delivery or by attestation), only the number of shares of Common Stock issued net of the shares of Common Stock tendered will be deemed delivered for purposes of determining the maximum number of shares of Common Stock available for delivery under the Plan. The maximum number of shares available for issuance under the Plan shall not be reduced to reflect any dividends or dividend equivalents that are reinvested into additional shares of Common Stock or credited as additional performance shares. The shares of Common Stock available for issuance under the Plan may be authorized and unissued shares or treasury shares. For the purpose of computing the total number of shares of Common Stock granted under the Plan, where one or more types of Awards, both of which are payable in shares of Common Stock, are granted in tandem with each other, such that the exercise of one type of Award with respect to a number of shares cancels an equal number of shares of the other, the number of shares granted under both Awards shall be deemed to be equivalent to the number of shares under one of the Awards.

Section 6.2 *Adjustment to Shares*.

(a) *In General.* The provisions of this Section 6.2(a) are subject to the limitation contained in Section 6.2(b). If there is any change in the number of outstanding shares of Common Stock through the declaration of stock dividends, stock splits or the like, the number of shares available for Awards, the shares subject to any Award and the option prices or exercise prices of Awards shall be automatically adjusted. If there is any change in the number of outstanding shares of Common Stock through any change in the capital of Transcat, or through a merger, consolidation, separation (including a spin off or other distribution of stock or property), reorganization (whether or not such reorganization comes within the meaning of such term in Section 368(a) of the Code) or partial or complete liquidation, the Committee shall make appropriate adjustments in the maximum number of shares of Common Stock which may be issued under the Plan and any adjustments and/or modifications to outstanding Awards as it deems appropriate in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan. In the event of any other change in the capital structure or in the Common Stock of Transcat, the Committee shall make such appropriate adjustments in the maximum number of shares of Common Stock available for issuance under the Plan and any adjustments and/or modifications to outstanding Awards as it deems appropriate in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan. The maximum number of shares available for issuance under the Plan shall be automatically adjusted to the extent necessary to reflect any dividend equivalents paid in the form of Common Stock. Subject to Section 6.2(b), if the maximum number of shares of Common Stock available for issuance under the Plan are adjusted pursuant to this Section 6.2(a), corresponding adjustments shall be made to the limitations set forth in Section 6.3.

(b) *Covered Employees.* In no event shall the Award of any Participant who is a Covered Employee be adjusted pursuant to Section 6.2(a) to the extent it would cause such Award to fail to qualify as performance-based compensation under Section 162(m) of the Code.

(c) *Adjustment Required By Exchange Listing Requirements.* The Committee may reduce the maximum number of shares of Common Stock which shall be available for the grant of Awards under the Plan set forth in Section 6.1 to the extent such reduction is required or necessary to comply with the listing criteria of a national exchange or automated quotation system on which any security of the Company is listed or is to be listed.

Section 6.3 *Maximum Award Payable*. Notwithstanding any provision contained in the Plan to the contrary, the maximum Award payable (or granted, if applicable) to any one Participant under the Plan for a calendar year is: (a) for stock options, 450,000 shares of Common Stock; (b) for Stock Awards (including those issued in the form of Performance Awards under Article 9), 100,000 shares of Common Stock; and (c) for Performance Awards, 75,000 shares of Common Stock or, in the event the Performance Award is paid in cash, $1,000,000.

ARTICLE 7

STOCK OPTIONS AND STOCK APPRECIATION RIGHTS

Section 7.1 *In General*. Awards may be granted in the form of stock options and Stock Appreciation Rights. Stock options may be incentive stock options within the meaning of Section 422 of the Code or non-qualified stock options (i.e., stock options which are not incentive stock options), or a combination of both. All stock options granted under the Plan issued to Covered Employees shall qualify as performance-based compensation under Section 162(m) of the Code. Stock Appreciation Rights may be granted as stand-alone Awards or in tandem with other Awards. The terms and conditions of Stock Appreciation Rights may change from time to time, and the terms and conditions of separate Stock Appreciation Rights need not be identical.

Section 7.2 *Terms and Conditions of Stock Options and Stock Appreciation Rights*. An option shall be exercisable in accordance with such terms and conditions and at such times and during such periods as may be determined by the Committee. Subject to the requirements of Section 7.3 for incentive stock options, the price at which Common Stock may be purchased upon exercise of a stock option shall be established by the Committee, but such price shall not be less than 100 percent of the Fair Market Value of the Common Stock, as determined by the Committee, on the Effective Date of the stock option s grant. Each Stock Appreciation Right will be denominated in shares of Common Stock. The strike price of each Stock Appreciation Right shall not be less than 100 percent of the Fair Market Value of the Common Stock, as determined by the Committee, on the Effective Date of grant. The term of a stock appreciation right may not exceed ten years.

Section 7.3 *Restrictions Relating to Incentive Stock Options*. Stock options issued in the form of incentive stock options shall, in addition to being subject to the terms and conditions of Section 7.2, comply with Section 422 of the Code. Accordingly, the exercise price of an incentive stock option shall be not less than 100 percent (or such greater percentage as may be required by Section 422 of the Code) of the Fair Market Value of the Common Stock, as determined by the Committee, on the Effective Date of the option s grant. The aggregate Fair Market Value (determined at the time the option was granted) of the Common Stock with respect to which incentive stock options are exercisable for the first time by a Participant during any calendar year (under this Plan or any other plan of the Company) shall not exceed $100,000 (or such other limit as may be required by Section 422 of the Code), and any stock options in excess of such limit shall be non-qualified stock options. Furthermore, stock options issued in the form of incentive stock options must be issued within ten years from the effective date of the Plan, and the term of such stock options may not exceed ten years (or any shorter period required by Section 422 of the Code).

Section 7.4 *Additional Terms and Conditions*. The Committee may, by way of the Award Notice or otherwise, establish such other terms, conditions, restrictions and/or limitations, if any, of any stock option Award, provided they are not inconsistent with the Plan.

Section 7.5 *Vesting*. A stock option or Stock Appreciation Right shall vest and become exercisable with respect to the shares subject to such Award as set forth in the applicable Award Notice.

Section 7.6 *Exercise*.

(a) *Exercise or Strike Price.* Upon exercise, the exercise price of a stock option or the strike price of a Stock Appreciation Right may be paid: (i) in cash, (ii) by tendering, by either actual delivery of shares or by attestation, shares of Common Stock, a combination of the foregoing, (iii) authorizing the Company to withhold whole shares of Common Stock which would otherwise be delivered having an aggregate Fair Market Value, determined as of the date of exercise, equal to the amount necessary to satisfy such obligation,

(iv) subject to Section 14.8, by way of a broker-assisted stock option exercise program of the Company, if any, provided such program is available at the time of exercise, or (v) such other consideration as specified in an Award Notice. The Committee shall establish appropriate methods for accepting Common Stock, whether restricted or unrestricted, and may impose such conditions as it deems appropriate on the use of such Common Stock to exercise a stock option or a Stock Appreciation Right.

(b) *Tax Withholdings.* The Committee may permit a Participant to satisfy the minimum amounts required to be withheld under applicable federal, state and local tax laws, in effect from time to time, by electing to have the Company withhold a portion of the shares of Common Stock to be delivered for the payment of such taxes.

(c) *Calculation of Appreciation of Stock Appreciation Rights.* The appreciation distribution payable on the exercise of a Stock Appreciation Right will be not greater than an amount equal to the excess of (i) the aggregate Fair Market Value (on the date of the exercise of the Stock Appreciation Right) of the number of shares of Common Stock in which the Participant is vested under such Stock Appreciation Right, and with respect to which the Participant is exercising the Stock Appreciation Right on such date, over (ii) the strike price of the Stock Appreciation Right. The appreciation distribution in respect to a Stock Appreciation Right may be paid in Common Stock, in cash, in any combination of the two or in any other form of consideration, as determined by the Board and set forth in the Award Notice evidencing such Stock Appreciation Right.

Section 7.7 *Company s Right to Redeem Stock Options and Stock Appreciation Rights.*

(a) Subject to Section 7.7(b), every vested stock option and Stock Appreciation Right under this Plan may be redeemed by Transcat at any time. The purchase price for any stock option or Stock Appreciation Right redeemed by the Company shall be the Fair Market Value of the Common Stock underlying such Award, less the exercise or strike price, as applicable, of such Award. The purchase price, less any amount of federal or state taxes attributable to the redemption that Transcat deems it necessary or advisable to pay or withhold, shall be paid in cash.

(b) No Repricings or Underwater Buyouts. Except as provided in Section 6.2 Section 6.2(a), no stock option or Stock Appreciation Right granted under the Plan may be:

(i) amended to decrease the exercise or strike price thereof,

(ii) cancelled in exchange for the grant of any new stock option or Stock Appreciation Right with a lower exercise or strike price or any new Award, or

(iii) otherwise be subject to any action that would be treated under accounting rules or otherwise as a repricing of such stock option or Stock Appreciation Right (including a cash buyout or voluntary surrender/subsequent regrant of an underwater stock option or Stock Appreciation Right), unless such action is first approved by the Company s shareholders.

ARTICLE 8

STOCK AWARDS

Section 8.1 *Grants.* Awards may be granted in the form of Stock Awards. Stock Awards shall be awarded in such numbers and at such times during the term of the Plan as the Committee shall determine.

Section 8.2 *Award Restrictions.* Stock Awards shall be subject to such terms, conditions, restrictions, and/or limitations, if any, as the Committee deems appropriate including, but not by way of limitation, restrictions on transferability and continued employment, provided such terms, conditions, restrictions, and/or limitations are not inconsistent with the Plan. The Committee may modify or accelerate the delivery of a Stock Award under such circumstances as it deems appropriate.

Section 8.3 *Vesting*. The restrictions, if any, on a Stock Award shall be set forth in the applicable Award Notice, which may also provide for some or all of a Stock Award to vest upon attainment of pre-established performance goals.

Section 8.4 _Rights as Shareholders_. During the period in which any restricted shares of Common Stock are subject to any restrictions imposed under Section 8.2, the Committee may, in its sole discretion, grant to the Participant to whom such restricted shares have been awarded all or any of the rights of a shareholder with respect to such shares, including, but not by way of limitation, the right to vote such shares and, pursuant to Article 12, the right to receive dividends.

Section 8.5 _Evidence of Award_. Any Stock Award granted under the Plan may be evidenced in such manner as the Committee deems appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates.

ARTICLE 9

PERFORMANCE AWARDS

Section 9.1 _Purpose_. For purposes of grants issued to Covered Employees, the provisions of this Article 9 shall apply in addition to and, where necessary, in lieu of the provisions of Article 8. The purpose of this Article is to provide the Committee the ability to qualify the Stock Awards authorized under Article 8, the performance units under Section 9.5, and the performance shares under Section 9.6 as qualified performance-based compensation under Section 162(m) of the Code.

Section 9.2 _Eligibility_. Only Covered Employees shall be eligible to receive Performance Awards. The Committee will, in its sole discretion, designate within the first 90 days of a Performance Period (or, if longer, within the maximum period allowed under Section 162(m) of the Code) which Covered Employees will be Participants for such period. However, designation of a Covered Employee as a Participant for a Performance Period shall not in any manner entitle the Participant to receive an Award for the period. The determination as to whether or not such Participant becomes entitled to an Award for such Performance Period shall be decided solely in accordance with the provisions of this Article 9. Moreover, designation of a Covered Employee as a Participant for a particular Performance Period shall not require designation of such Covered Employee as a Participant in any subsequent Performance Period and designation of one Covered Employee as a Participant shall not require designation of any other Covered Employee as a Participant in such period or in any other period.

Section 9.3 _Discretion of Committee with Respect to Performance Awards_. With regards to a particular Performance Period, the Committee shall have full discretion to select the length of such Performance Period, the type(s) of Performance Awards to be issued, the Performance Criteria that will be used to establish the Performance Goal(s), the kind(s) and/or level(s) of the Performance Goal(s), whether the Performance Goal(s) is(are) to apply to the Company or any one or more subunits thereof, and the Performance Formula. Within the first 90 days of a Performance Period (or, if longer, within the maximum period allowed under Section 162(m) of the Code), the Committee shall, with regards to the Performance Awards to be issued for such Performance Period, exercise its discretion with respect to each of the matters enumerated in the immediately preceding sentence of this Section 9.3 and record the same in writing.

Section 9.4 _Payment of Performance Awards_.

(a) *Condition to Receipt of Performance Award.* Unless otherwise provided in the relevant Award Notice, a Participant must be employed by the Company on the last day of a Performance Period to be eligible for a Performance Award for such Performance Period.

(b) *Limitation.* A Participant shall be eligible to receive a Performance Award for a Performance Period only to the extent that: (1) the Performance Goals for such period are achieved; and (2) the Performance Formula as applied against such Performance Goals determines that all or some portion of such Participant s Performance Award has been earned for the Performance Period.

(c) *Certification.* Following the completion of a Performance Period, the Committee shall meet to review and certify in writing whether, and to what extent, the Performance Goals for the Performance Period have been achieved and, if so, to also calculate and certify in writing the amount of the Performance Awards

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earned for the period based upon the Performance Formula. The Committee shall then determine the actual size of each Participant s Performance Award for the Performance Period.

(d) *Timing of Award Payments.* The Awards granted for a Performance Period shall be paid to Participants as specified in the applicable Award Notice, which generally shall be as soon as administratively practicable following completion of the certifications required by Section 9.4(c).

Section 9.5 *Performance Units*.

(a) *Grants.* Performance Awards may be granted in the form of performance units. Performance units, as that term is used in this Plan, shall refer to Units valued by reference to designated criteria established by the Committee, other than Common Stock.

(b) *Performance Criteria.* Performance units shall be contingent on the attainment during a Performance Period of certain Performance Goals. The length of the Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such objectives have been attained shall be conclusively determined by the Committee in the exercise of its absolute discretion.

(c) *Additional Terms and Conditions.* The Committee may, by way of the Award Notice or otherwise, determine such other terms, conditions, restrictions, and/or limitations, if any, of any Award of performance units, provided they are not inconsistent with the Plan.

Section 9.6 *Performance Shares*.

(a) *Grants.* Performance Awards may be granted in the form of performance shares. Performance shares, as that term is used in this Plan, shall refer to shares of Common Stock or Units that are expressed in terms of Common Stock.

(b) *Performance Criteria.* Performance shares shall be contingent upon the attainment during a Performance Period of certain Performance Goals. The length of the Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such objectives have been attained shall be conclusively determined by the Committee in the exercise of its absolute discretion.

(c) *Additional Terms and Conditions.* The Committee may, by way of the Award Notice or otherwise, determine such other terms, conditions, restrictions and/or limitations, if any, of any Award of performance shares, provided they are not inconsistent with the Plan.

ARTICLE 10

EFFECT OF CERTAIN EVENTS

Section 10.1 *Stock Options*.

(a) *Committee Rules.* The Committee shall have the authority to promulgate rules and regulations to determine the treatment of a Participant s stock options and stock appreciation rights issued under the Plan in the event of such Participant s death, Disability, Retirement, termination for an Approved Reason and other termination.

(b) *Death.* Unless otherwise provided in an Award Notice, upon a Participant s death, any stock option or stock appreciation right may be exercised in whole or in part within one year after the date of the Participant s death and then only: (a) by the beneficiary designated by the Participant in a writing submitted to the Company prior to the

Participant s death, or in the absence of same, by the Participant s estate or by or on behalf of such person or persons to whom the Participant s rights pass under his or her will or the laws of descent and distribution, (b) to the extent that the Participant would have been entitled to exercise the stock option or stock appreciation right at the date of his or her death and subject to all of the conditions on exercise imposed by the Plan and the Award Notice, and (c) prior to the expiration of the term of the stock option or stock appreciation right.

(c) *Disability.* Unless otherwise provided in an Award Notice, upon a Participant s Disability, any stock option or stock appreciation right may be exercised in whole or in part within one year after the date of the Participant s Disability and then only to the extent that the Participant would have been entitled to exercise the stock option or stock appreciation right at the date of his or her Disability, subject to all of the conditions on exercise imposed by the Plan and the Award Notice and prior to the expiration of the term of the stock option or stock appreciation right.

(d) *Retirement or Termination for an Approved Reason.* Unless otherwise provided in an Award Notice, upon a Participant s Retirement or termination for an Approved Reason, any stock option or stock appreciation right may be exercised in whole or in part thereafter only to the extent that the Participant would have been entitled to exercise the stock option or stock appreciation right at the date of his or her Retirement or termination for an Approved Reason, and subject to all of the conditions on exercise imposed by the Plan and the Award Notice and prior to the expiration of the term of the stock option or stock appreciation right.

(e) *Other Termination.* If a Participant s employment with the Company terminates for a reason other than death, Disability, Retirement, or an Approved Reason, and unless otherwise provided in an Award Notice, any stock option or stock appreciation right may be exercised in whole or in part within 90 days after the date of termination of employment and then only to the extent such stock option or stock appreciation right is vested and exercisable at the time of the termination of employment, and subject to all of the conditions on exercise imposed by the Plan and the Award Notice and prior to the expiration of the term of the stock option or stock appreciation right.

(f) *Acceleration and Extension.* Notwithstanding this Section or the terms of an Award Notice, the Committee may: (i) accelerate the vesting and exercisability of a stock option or stock appreciation right in order to allow its exercise by the estate or beneficiary of a deceased Participant or by the disabled, retired or terminated Participant; and (ii) extend the period for exercise of a stock option or stock appreciation right, provided such extension does not exceed the term of such stock option or stock appreciation right.

Section 10.2 <u>Other Awards</u>. The Committee shall have the authority to promulgate rules and regulations to determine the treatment of the other Awards of a Participant under the Plan in the event of such Participant s death, Disability, Retirement, or termination from the Company.

Section 10.3 <u>Change In Control</u>.

(a) *Background.* Notwithstanding any provision contained in the Plan, including, but not limited to, Section 4.4, the provisions of this Section 10.3 shall control over any contrary provision.

(b) *Change In Control.* Upon a Change In Control: (i) the terms of this Section 10.3 shall immediately become operative, without further action or consent by any person or entity; (ii) all terms, conditions, restrictions, and limitations in effect on any unexercised, unearned, unpaid, and/or deferred Award, or any other outstanding Award, shall immediately lapse as of the date of such event; (iii) no other terms, conditions, restrictions and/or limitations shall be imposed upon any Awards on or after such date, and in no circumstance shall an Award be forfeited on or after such date; and (iv) except in those instances where a prorated Award is required to be paid under this Section 10.3, all unexercised, unvested, unearned, and/or unpaid Awards or any other outstanding Awards shall automatically become 100 percent vested immediately. The Committee shall determine the appropriate method and time for the conversion, payment or exercise of such Awards after a Change In Control, in each case in a manner that complies with Section 409A of the Code.

(c) *Dividends and Dividend Equivalents.* Subject to Section 14.10, upon a Change In Control, all unpaid dividends and dividend equivalents and all interest accrued thereon, if any, shall be treated and paid under this Section 10.3 in the identical manner and time as the Award under which such dividends or dividend equivalents have been credited.

For example, if an Award under this Section 10.3 is to be paid in a prorated fashion, all unpaid dividends and dividend equivalents with respect to such Award shall be paid according to the same formula used to determine the amount of such prorated Award.

(d) *Treatment of Performance Units and Performance Shares.* If a Change In Control occurs during the term of one or more Performance Periods for which the Committee has granted performance units and/or performance shares, the term of each such Performance Period (hereinafter a current performance period) shall immediately terminate upon the occurrence of such event. Upon a Change In Control, for each current performance period and each completed performance period for which the Committee has not on or before such date made a determination as to whether and to what degree the performance objectives for such period have been attained (hereinafter a completed performance period), it shall be assumed that the performance objectives have been attained at a level of 100 percent or the equivalent thereof. A Participant in one or more current performance periods shall be considered to have earned and, therefore, be entitled to receive, a prorated portion of the Awards previously granted to him for each such current performance period. Such prorated portion shall be determined by multiplying the number of performance shares or performance units, as the case may be, granted to the Participant by a fraction, the numerator of which is the total number of whole months that have elapsed since the beginning of the current performance period, and the denominator of which is the total number of full months in such current performance period. For purposes of this calculation, a partial month shall be treated as a full month to the extent 15 or more days in such month have elapsed. A Participant in one or more completed performance periods shall be considered to have earned and, therefore, be entitled to receive all the performance shares or performance units, as the case may be, previously granted to him during each such completed performance period.

(e) *Valuation of Awards.* Upon a Change In Control, all outstanding Units of Common Stock, stock options (including incentive stock options), Stock Awards (including those issued as Performance Awards under Article 9), performance shares (including those earned as a result of the application of Section 10.3(d) above), and all other outstanding stock-based Awards (including those granted by the Committee pursuant to its authority under Section 4.2(n) hereof), shall be valued on the basis of the Change In Control Price.

(f) *Deferred Awards.* Subject to Section 14.10, upon a Change In Control, all Awards deferred by a Participant under Article 13 hereof, but for which he or she has not received payment as of such date, shall be paid as soon as practicable, but in no event later than 90 days after the Change In Control or the event giving rise to rights under this Section 10.3. For purposes of making such payment, the value of all Awards that are stock based shall be determined by the Change In Control Price.

(g) *Limitation on Acceleration and Payment.* The acceleration or payment of Awards under this Section 10.3 could, in certain circumstances, subject a Participant to the excise tax provided under Section 4999 of the Code. It is the object of this Section 10.3(g) to see that each Participant retains in full the benefits of the Plan and to provide for the maximum after-tax income to each Participant. Accordingly, the Participant must determine, before any payments are made on Awards pursuant to this Section 10.3, which of the following two alternative forms of acceleration will maximize the Participant s after-tax proceeds, and must notify the Company in writing of his or her determination:

(i) *Full Vesting.* Payment in full of all Awards pursuant to this Section 10.3.

(ii) *Limited Vesting.* Payment of only a part of the Participant s Awards so that the Participant receives the largest payment possible without causing an excise tax to be payable by the Participant under Section 4999 of the Code.

The Participant s Awards shall be paid only to the extent permitted under the alternative determined by the Participant to maximize his or her after-tax proceeds, and the Participant shall have no rights to any greater payments on his or her Awards. The determination of whether Limited Vesting is required and the application of the rules in this Section 10.3(g) shall initially be made by the Participant and all such determinations shall be conclusive and binding on the Company unless the Company proves that they are clearly erroneous. In the latter event, such determinations shall be made by the Company.

ARTICLE 11

PAYMENT OF AWARDS

Section 11.1 *Payment*. Absent a Plan provision to the contrary, payment of Awards may, at the discretion of the Committee, be made in cash, Common Stock, a combination of cash and Common Stock, or any other form of property as the Committee shall determine. In addition, payment of Awards may include such terms, conditions, restrictions and/or limitations, if any, as the Committee deems appropriate, including, in the case of Awards paid in the form of Common Stock, restrictions on transfer and forfeiture provisions, provided such terms, conditions, restrictions and/or limitations are not inconsistent with the Plan. Further, to the extent permitted by Section 409A, payment of Awards may be made in the form of a lump sum or installments, as determined by the Committee.

Section 11.2 *Withholding Taxes*. The Company shall be entitled to deduct from any payment under the Plan, regardless of the form of such payment, the amount of all applicable income and employment taxes required by law to be withheld with respect to such payment or may require the Participant to pay to it such tax prior to and as a condition of the making of such payment. In accordance with any applicable administrative guidelines it establishes, the Committee may allow a Participant to pay the amount of taxes required by law to be withheld from an Award by withholding from any payment of Common Stock due as a result of such Award, or by permitting the Participant to deliver to the Company, shares of Common Stock having a Fair Market Value, as determined by the Committee, equal to the minimum amount of such required withholding taxes.

ARTICLE 12

DIVIDEND AND DIVIDEND EQUIVALENTS

To the extent permitted by Section 409A of the Code, if an Award is granted in the form of a stock option, Stock Award or performance share, or in the form of any other stock-based grant, the Committee may choose, at the time of the grant of the Award or any time thereafter up to the time of the Award s payment, to include as part of such Award an entitlement to receive dividends or dividend equivalents, subject to such terms, conditions, restrictions and/or limitations, if any, as the Committee may establish. To the extent permitted by Section 409A of the Code, dividends and dividend equivalents shall be paid in such form and manner (i.e., lump sum or installments), and at such time(s) as the Committee shall determine. All dividends or dividend equivalents which are not paid currently may, at the Committee s discretion, accrue interest, be reinvested into additional shares of Common Stock or, in the case of dividends or dividend equivalents credited in connection with Stock Awards or performance shares, be credited as additional Stock Awards or performance shares and paid to the Participant if and when, and to the extent that, payment is made pursuant to such Award. The total number of shares available for grant under Section 6.1 shall not be reduced to reflect any dividends or dividend equivalents that are reinvested into additional shares of Common Stock or credited as additional Stock Awards or performance shares.

ARTICLE 13

DEFERRAL OF AWARDS

At the discretion of the Committee and to the extent permitted by Section 409A of the Code, payment of any Award, dividend, or dividend equivalent, or any portion thereof, may be deferred by a Participant until such time as the Committee may establish. All such deferrals shall be accomplished by the delivery of a written, irrevocable election by the Participant prior to the time established by the Committee for such purpose, on a form provided by the Company. Further, all deferrals shall be made in accordance with administrative guidelines established by the Committee to ensure that such deferrals comply with all applicable requirements of the Code. To the extent permitted by Section 409A of the Code, deferred payments shall be paid in a lump sum or installments, as determined by the Committee. Deferred Awards may also be credited with interest, at such rates to be determined by the Committee, and, with respect to those deferred Awards denominated in the form of Common Stock, with dividends or dividend equivalents.

ARTICLE 14

MISCELLANEOUS

Section 14.1 *Nonassignability*. Except as otherwise determined by the Committee or as otherwise provided in an Award Notice, no Awards or any other payment under the Plan shall be subject in any manner to alienation, anticipation, sale, transfer (except by will or the laws of descent and distribution), assignment, pledge, or encumbrance, nor shall any Award be payable to or exercisable by anyone other than the Participant to whom it was granted.

Section 14.2 *Amendments to Awards*. The Committee may at any time unilaterally amend any unexercised, unearned, or unpaid Award, including, but not by way of limitation, Awards earned but not yet paid, to the extent it deems appropriate, provided that any such amendment which, in the opinion of the Committee, is adverse to the Participant shall require the Participant s consent.

Section 14.3 *Regulatory Approvals and Listings*. Notwithstanding anything contained in this Plan to the contrary, the Company shall have no obligation to issue or deliver certificates of Common Stock evidencing Stock Awards or any other Award resulting in the payment of Common Stock prior to (i) the obtaining of any approval from any governmental agency which the Company shall, in its sole discretion, determine to be necessary or advisable, (ii) the admission of such shares to listing on the stock exchange on which the Common Stock may be listed, and (iii) the completion of any registration or other qualification of said shares under any state or federal law or ruling of any governmental body which the Company shall, in its sole discretion, determine to be necessary or advisable.

Section 14.4 *No Right to Continued Employment or Grants*. Participation in the Plan shall not give any Employee any right to remain in the employ of the Company. The Company reserves the right to terminate any Employee at any time. Further, the adoption of this Plan shall not be deemed to give any Employee or any other individual any right to be selected as a Participant or to be granted an Award. In addition, no Employee having been selected for an Award, shall have at any time the right to receive any additional Awards.

Section 14.5 *Amendment/Termination*. The Committee may suspend or terminate the Plan at any time for any reason with or without prior notice. In addition, the Committee may, from time to time for any reason and with or without prior notice, amend the Plan in any manner, but may not without shareholder approval adopt any amendment which would increase the number of shares available under the Plan, or which would require the vote of the shareholders of Transcat pursuant to Section 162(m) of the Code, but only insofar as such amendment affects Covered Employees, or if such approval is necessary or deemed advisable with respect to tax, securities, or other applicable laws, policies, or regulations. Notwithstanding the foregoing and subject to Section 7.7, the Committee may not revoke, remove or reduce any vested right of a Participant without the prior written consent of such Participant.

Section 14.6 *Governing Law*. The Plan shall be governed by and construed in accordance with the laws of the State of New York, except as superseded by applicable federal law, without giving effect to its conflicts of law provisions.

Section 14.7 *No Right, Title, or Interest in Company Assets*. No Participant shall have any rights as a shareholder as a result of participation in the Plan until the date of issuance of a stock certificate in his or her name, and, in the case of restricted shares of Common Stock, such rights are granted to the Participant under the Plan. To the extent any person acquires a right to receive payments from the Company under the Plan, such rights shall be no greater than the rights of an unsecured creditor of the Company and the Participant shall not have any rights in or against any specific assets of the Company. All of the Awards granted under the Plan shall be unfunded.

Section 14.8 *Section 16 of the Exchange Act*. In order to avoid any Exchange Act violations, the Committee may, from time to time, impose additional restrictions upon an Award, including but not limited to, restrictions regarding tax withholdings and restrictions regarding the Participant s ability to exercise Awards under the a broker-assisted stock option exercise program of the Company, if any.

Section 14.9 *No Guarantee of Tax Consequences*. No person connected with the Plan in any capacity, including, but not limited to, the Company and its directors, officers, agents and employees, makes any representation, commitment, or guarantee that any tax treatment, including, but not limited to, federal, state and local income, estate and gift tax treatment, will be applicable with respect to the tax treatment of any Award, any amounts deferred under the Plan, or paid to or for the benefit of a Participant under the Plan, or that such tax treatment will apply to or be available to a Participant on account of participation in the Plan.

Section 14.10 *Section 409A*. The Plan and Awards granted under the Plan are intended to be exempt from the requirements of Section 409A of the Code to the maximum extent possible, whether pursuant to the short-term deferral exception described in Treasury Regulation Section 1.409A-1(b)(4), the exclusion applicable to stock options and certain other equity-based compensation under Treasury Regulation Section 1.409A-1(b)(5), or otherwise. To the extent Section 409A of the Code is applicable to the Plan or any Award granted under the Plan, it is intended that the Plan and any Awards granted under the Plan comply with the deferral, payout and other limitations and restrictions imposed under Section 409A of the Code. Notwithstanding any other provision of the Plan or any Award granted under the Plan to the contrary, the Plan and any Award granted under the Plan shall be interpreted, operated and administered in a manner consistent with such intentions.

Without limiting the generality of the foregoing, and notwithstanding any other provision of the Plan or any Award granted under the Plan to the contrary, with respect to any payments and benefits under the Plan or any Award granted under the Plan to which Section 409A of the Code applies, all references in the Plan or any Award granted under the Plan to the termination of the Participant s employment or service are intended to mean the Participant s separation from service, within the meaning of Section 409A(a)(2)(A)(i) of the Code. In addition, if the Participant is a specified employee, within the meaning of Section 409A of the Code, then to the extent necessary to avoid subjecting the Participant to the imposition of any additional tax under Section 409A of the Code, amounts that would otherwise be payable under the Plan or any Award granted under the Plan during the six-month period immediately following the Participant s separation from service, within the meaning of Section 409A(a)(2)(A)(i) of the Code, shall not be paid to the Participant during such period, but shall instead be accumulated and paid to the Participant (or, in the event of the Participant s death, the Participant s estate) in a lump sum on the first business day after the earlier of the date that is six months following the Participant s separation from service or the Participant s death.

If and to the extent that any Award is determined by the Company to constitute non-qualified deferred compensation subject to Section 409A of the Code and such Award is payable to a Participant upon a Change In Control, then no payment shall be made pursuant to such Award unless such Change In Control constitutes a change in the ownership of the corporation, a change in effective control of the corporation, or a change in the ownership of a substantial portion of the assets of the corporation within the meaning of Section 409A of the Code; provided that if such Change In Control does not constitute a change in the ownership of the corporation, a change in effective control of the corporation, or a change in the ownership of a substantial portion of the assets of the corporation within the meaning of Section 409A of the Code, then the Award shall still fully vest upon such Change In Control, but shall be payable upon the original schedule contained in the Award Notice.

Notwithstanding any other provision of the Plan to the contrary, the Committee, to the extent it deems necessary or advisable in its sole discretion, reserves the right, but shall not be required, to unilaterally amend or modify the Plan and any Award granted under the Plan so that the Award qualifies for exemption from or complies with Section 409A of the Code; provided, however, that the Committee makes no representations that Awards granted under the Plan shall be exempt from or comply with Section 409A of the Code and makes no undertaking to preclude Section 409A of the Code from applying to Awards granted under the Plan.

Section 14.11 *Recoupment Policy*. All Awards under the Plan shall be subject to recovery by the Company under its incentive compensation recoupment policy, as amended from to time.

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YOUR VOTE IS IMPORTANT Regardless of whether you plan to attend the Annual Meeting of Shareholders, you can be sure your shares are represented at the meeting by promptly returning your proxy in the enclosed envelope. IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON SEPTEMBER 13, 2011. The proxy statement and annual report to security holders are available at www.envisionreports.com/TRNS. For directions on how to attend the annual meeting and vote in person, see the Revocability of Proxies and Voting; Cumulative Voting sections of the proxy statement that accompanies this proxy card. 3 PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. 3 Proxy TRANSCAT, INC. THIS PROXY IS SOLICITED ON BEHALF OF OUR BOARD OF DIRECTORS The undersigned appoints CARL E. SASSANO and CHARLES P. HADEED, and each of them, as proxies for the undersigned, with full power of substitution, to vote all shares of the common stock of TRANSCAT, INC. owned by the undersigned at the annual meeting of shareholders to be held at our corporate headquarters, which are located at 35 Vantage Point Drive, Rochester, New York 14624, on Tuesday, September 13, 2011 at 12:00 noon, local time, and at any adjournments of such annual meeting, reserving to such proxies the right to vote such shares cumulatively to elect the maximum number of director nominees, as stated on the reverse side. 3 This proxy will be voted as specified by you, and it revokes any prior proxy given by you. 3 Unless you withhold authority to vote for one or more of the nominees according to the instructions on the reverse side of this proxy, your signed proxy will be voted FOR the election of the three nominees for directors listed on the reverse side of this proxy and described in the accompanying proxy statement. 3 Unless you specify otherwise, your signed proxy will be voted FOR the other two proposals listed on the reverse side of this proxy and described in the accompanying proxy statement. 3 You acknowledge receipt with this proxy of a copy of the notice of annual meeting and proxy statement dated July 22, 2011, describing more fully the proposals listed in this proxy. (Continued and to be signed, on reverse side)