

TRANSMATION INC
Form 10-K/A
July 13, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

(Mark One)

Edgar Filing: TRANSMATION INC - Form 10-K/A

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (No Fee Required)

For the fiscal year ended March 31, 2001

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (No Fee Required)

For the transition period from _____ to _____

Commission file number 0-3905

Transmation, Inc.

(Exact name of registrant as specified in its charter)

Ohio

16-0874418

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

10 Vantage Point Drive, Rochester, New York

14624

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code

716-352-7777

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

Title of each class

Name of each exchange on which registered

None

None

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

(Title of Class)

Common Stock \$0.50 Par Value

(Title of Class)

Indicate by check mark (X) whether the registrant, (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes or No

Indicate by check mark (X) if disclosure of delinquent filers pursuant to Item 405 of the Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information

statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K. ()

The aggregate market value of the voting stock held by non-affiliates of the registrant is \$13,823,458 as of the close of business May 31, 2001. Market value is determined by reference to the final NASDAQ quotation of the price paid for Transmation stock as of that date.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the close of business on May 31, 2001.

Class	Number of Shares Outstanding
Common	6,073,627
<hr/>	
<hr/>	

Documents incorporated by reference and the part of Form 10-K into which they are incorporated are listed hereunder.

<u>Part of Form 10-K</u>	<u>Document Incorporated</u>
Part III Registrant's definitive Proxy Statement for Annual Meeting of Shareholders to be held on August 21, 2001	

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Part I

Item 1. Business

Transmation, Inc. (the Company or Transmation), an Ohio corporation organized in 1964, is primarily engaged in the sale and distribution, development, manufacture and service of electronic instrumentation which is used principally for measurement, indication and transmission of information.

The principle products and services sold by Transmation are test, measurement and calibration instruments used to calibrate, measure and test many physical parameters in industry and science. Products sold and serviced by Transmation are manufactured by the Company and by approximately two hundred fifty other manufacturers.

Principle products sold by Transmation range in price from \$100 to more than \$20,000 for large calibration test systems. Services sold by Transmation range in price from \$25 for a product certification to more than \$100,000 for large on-site service projects.

Transmation believes it is uniquely positioned in its industry in that it provides customers significant opportunity to fulfill many of their product purchasing and product service requirements from one vendor. The ability to sell both products and services to customers enables the Company to distribute its sales and administrative costs over both sales activities and to better penetrate customer accounts to achieve enhanced sales results from customers compared to competitors who do not offer both sales and service solutions for customers.

The principal market for Transmation's products and services is within the process industry and is primarily directed to the petroleum refining and chemical manufacturing industries, and secondarily to the pulp and paper, gas pipeline and primary metals, pharmaceutical and fiber optics industries.

Transmation's sales are accomplished through (i) its Transcat Distribution Division (Transcat) which uses both direct marketing (catalog and internet) and direct salesmen, (ii) a manufacturing subsidiary, The Products Group, which produces products primarily under the Transmation and Altek product labels, (iii) the MetersandInstruments.com subsidiary (Meters and Instruments), begun in July 1999, a distributor to price-sensitive customers in discrete industries having a well defined purchasing intent over the internet, and (iv) one foreign subsidiary.

Sales of test, measurement and calibration equipment and services are principally made through Transcat, which sells through a catalog distributed to existing and prospective customers, through the internet and through salespeople in selected locations in the United States and Canada. Transcat sells Transmation-manufactured products and re-sells the products of approximately two hundred fifty other manufacturers through an annual catalog, which is currently approximately 800 pages. In addition to the annual catalog, Transcat makes periodic mailings to existing and prospective customers to spur additional sales as well as to generate names for future catalog or product mailings. In fiscal 1999, Transcat introduced Transcat.com®, an Internet site containing much of Transcat's catalog on-line , making on-line commerce available for Transcat's customers.

In fiscal 2000, Transmation incorporated MetersandInstruments, also an on-line sales activity, to target sales to customers traditionally very well informed with respect to their product purchase requirements and also very price sensitive in their purchasing practices. In addition to its on-line catalog, MetersandInstruments makes periodic mailings to existing and prospective customers in both electronic and traditional formats and advertises extensively in appropriate trade publications to promote site awareness among customers and prospective customers.

In addition to catalog and internet sales, Transmation engages in direct sales of test, measurement and calibration equipment and services. The Company employs over 25 direct sales people and sales managers in Transcat. The Company also maintains one regional sales manager in China. In addition, the Company has arrangements with over 94 sales representative and distributor organizations, each employing one or more sales engineers, located in other areas of concentrated demand for Transmation's products in the United States, Canada, the Far East, Central and South America, Australia, the Middle East and Eastern and Western Europe. These sales representatives and distributors either promote Transmation's products on a commission basis or purchase them from Transmation at a discount and resell such products to end users.

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The Company's Transcat CalLab operations, 13 of which are Guide 25 certified and all of which are ISO 9002 registered, provide periodic calibration and repair services for customers owning instrumentation manufactured by others and by Transmation. At March 31, 2001, there were Transcat CalLab facilities in 15 locations in the United States and Canada.

The Company's manufacturing operations, located in Rochester, New York, primarily develop, manufacture and sell electronic and pneumatic instrumentation used to calibrate and test instrumentation used primarily in the process industries. The facility has ISO 9001 registration.

The Company's value-added operation, which customizes, modifies and repairs analog gauges, is located in Baltimore, Maryland.

Since the beginning of fiscal 1997, Transmation has expanded its business through three acquisitions and one joint venture:

Altek Acquisition

In April 1996, the Company acquired all of the stock of Altek, a manufacturer of electronic calibration equipment, for cash and notes aggregating \$4.8 million, and 600,000 shares of Common Stock. As a result of this acquisition, the Company's sales were increased by more than \$5 million.

EIL Acquisition

In April 1997, the Company acquired substantially all of the assets of the Sales and Service Divisions of E.I.L. Instruments, Inc., a distributor and servicer of electronic test, measurement and calibration instrumentation, for \$22 million in cash and the value of certain assumed liabilities. As a result of this acquisition, the Company has added a large base of potential new customers, a value-added meter modification business and several new product lines, and has significantly increased its overall capabilities to provide repair, calibration and certification services.

Metermaster Acquisition

In February 1999, the Company acquired the capital stock of Metermaster, Inc., a distributor of electronic test, measurement and calibration instrumentation and value-added provider of analog gauges, for approximately \$1,000,000 in cash plus the assumption of liabilities totaling approximately \$6,900,000. As the result of this acquisition, the Company has added a large base of potential new customers, added significantly to its value-added business, and acquired a presence in potentially important new market territories not formerly served by Transmation.

During 2001, Transmation, Inc. entered into a joint venture, in which it holds a 49% interest and is the managing partner, to perform calibration services in Puerto Rico. That facility, operational in May 2000, provides on-island services to customers in Puerto Rico and provides Transmation with an advantage over competitors in that region without an on-island facility when seeking new business opportunities.

Transmation's future performance will depend substantially on its ability to manage its businesses' operations, to respond to competitive developments, to further develop markets for its products and services, and to anticipate future customer needs and to provide solutions for customers in a timely, cost-effective manner.

The Company's principal executive offices are located at 10 Vantage Point Drive, Rochester, New York 14624. Its telephone number is (716) 352-7777.

The following information is set forth as it is deemed material to an understanding of the business of the registrant:

Competition

The market to which the Company sells the products it manufactures is highly competitive, and the Company expects that competition will increase in the future. Failure to keep pace with rapid technological advances, which characterize the industry, could adversely affect the Company's competitive position with respect to the products it manufactures

and the way it distributes its products. In its manufacturing operation, the Company competes on the basis of price, performance, inventory availability, quality,

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reliability and customer service and support. To maintain its competitive position with respect to manufactured product, the Company must continue to develop new products, periodically enhance its existing products, reduce its cost of manufacturing such products, maintain the quality of its products and compete effectively in the areas described above. Although the Company believes that its products are competitive in each of the above-described areas, there can be no assurance that existing or future competitors, some of which have greater financial resources than the Company, will not introduce comparable or superior products incorporating more advanced technology at lower prices. The Company's competitors are numerous, ranging from large corporations to many relatively small and highly specialized firms. Although no single company competes in all of the Company's product markets, some of the major competitors which compete in the Company's individual product markets include Fluke, a unit of Danaher, Beta (a division of Hathaway Corporation) and certain divisions of Ametek Corporation. Some of these competitors have more extensive sales, distribution, engineering, manufacturing and/or marketing capabilities and substantially greater financial, technological and personnel resources than does the Company.

The market to which the Company, through Transcat, sells products and related services is also highly competitive. Competition for sales in distribution and service is quite fragmented and ranges from large, well-financed national distributors to small local distribution organizations and service providers, as well as the manufacturers of the products themselves. Transcat competes on the basis of price, inventory availability, service quality and customer service and support. To maintain its competitive position with respect to such products and services, the Company must continually demonstrate to customers its commitment to achieving the highest level of performance possible for a distributor and compete effectively in the areas described above.

Significant Customers

There were no sales to any customer or controlled group which amounted to 10 percent or more of the Company's consolidated net sales during the years 2001-1999, nor is the Company dependent on a single customer or a few customers, the loss of any one or more of which would have a material adverse effect on the Company.

Backlog

At the close of the fiscal year ended March 31, 2001, Transmation had a firm order backlog of approximately \$2,515,000 as compared to \$3,125,000 in 2000 and \$2,483,000 in 1999.

It is anticipated that 100 percent of Transmation's backlog existing on March 31, 2001 will be filled by shipments in fiscal year 2002. Transmation's cycle of sales to delivery at the present time is 1 day to 12 weeks on all product categories. However, backlog has generally not been a significant factor in Transmation's business.

Seasonality:

Transmation does not believe that its line of business has any significant seasonal factor.

Raw Materials

Finished products required for the Transcat division's catalog sales are generally available from only one source per product (the manufacturer) although on occasion substitutions of product are possible. Additionally, while the raw materials and components essential to Transmation's manufacturing business are available from a number of sources of supply, a portion of the Company's manufacturing operations is dependent on the ability to deliver completed products, sub-assemblies or components in time to meet critical distribution and manufacturing schedules. In certain instances, important parts and components are available through fewer suppliers than Transmation deems suitable. If such suppliers should fail in deliveries, delays in Transmation's production could result which, in turn, could have a material adverse effect on the Company's business, prospects, results of operations and financial condition. Periodically, Transmation has experienced delays in obtaining certain parts and components or finished products. Such delays are primarily attributable to demand for parts or products and long lead times. In order to minimize such delays, Transmation has placed scheduled blanket purchase orders, has sought out alternate sources of supply, has provided vendors with greater lead time in filling such orders and has placed certain finished product in its inventory. Transmation believes that such delays have not had a material adverse effect on its business to date, although it cannot predict what affect such delays may have in the future.

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Patents

The Company's success and ability to compete depends in part upon protecting its proprietary rights in its products, its name and its trade names. There can be no assurance that the measures taken by the Company will be adequate to deter misappropriation of its products, its name and its trade names or independent third-party development of its products, or that its intellectual property rights can be successfully enforced or defended if challenged. Given the continuing development of technology, there can be no assurance that certain aspects of the Company's products do not or will not infringe upon the existing or future proprietary rights of others or that, if licenses or rights are required to avoid infringement, such licenses or rights could be obtained on terms that would not have a material adverse effect on the Company, if at all.

It is the opinion of Management that the obtaining of patent protection is not essential to the conduct of Transmation's business. Transmation has, however, sought patent protection for its manufactured products in certain instances and presently holds several United States patents, the most recent of which was granted in 1994; patents expire at various dates through 2012. Transmation believes that the patents obtained provide a short-term marketing benefit, particularly when marketing products against similar products produced by competitors. However, Transmation does not believe that the patents have a significant impact on its business.

Transmation has registered numerous trademarks in the United States Patent and Trademark Office, including Transcat®, Quick-Cal®, CalXpress®, Shop Access®, Auto-Check®, Cal-Plus®, Caltrak®, Pneu-Cal®, Pneu-Cal II®, Quick-Check®, Quik-Pak®, Snap Pack®, T (design)®, Techchek®, Tool Box Tools®, and Transmation®.

Research and Development

During the fiscal year ended March 31, 2001, Transmation expended approximately \$1,165,953 in research and development as compared with an approximate expenditure of \$1,513,077 in 2000 and \$1,616,747 in 1999. The research and development costs in fiscal 2001 reflected the Company's efforts in all of its product lines in its Products Group.

Research and development is Company sponsored. Approximately 16 of its employees and several consultants are engaged in product development. All such employees hold technical degrees.

Many of the instruments which the Company designs and manufactures are used in the petroleum refining and chemical manufacturing industries. The tolerance for error in the design, manufacture or use of these products may be small or non-existent. If an instrument designed or manufactured by the Company is found to be defective, whether due to design or manufacturing defects, improper use of the product or other reasons, the instrument may need to be recalled, possibly at the Company's expense. Furthermore, the adverse effect of a product recall on the Company might not be limited to the cost of the recall to the Company. Recalls, especially if accompanied by unfavorable publicity or termination of customer contracts, could result in substantial costs, loss of revenues and diminution of the Company's reputation, each of which could have a material adverse effect on the Company's business, prospects, results of operations and financial condition. In addition, the manufacture and sale of the instruments manufactured by the Company also involves the risk of product liability claims. The Company evaluates its insurance coverage from time to time in view of developments in its business and products currently under development. Product liability insurance is expensive and, in the future, may not be available on acceptable terms, in sufficient amounts, or at all. A successful claim brought against the Company in excess of its insurance coverage or any material claim for which insurance coverage is denied or limited could have a material adverse effect on the Company's business, prospects, results of operations and financial condition.

Employees

At March 31, 2001, Transmation employed 345 persons, including 7 part time. Transmation employed 351 persons, including 3 part time, as of March 31, 2000, and at March 31, 1999, Transmation employed 418 persons, all full time. None of Transmation's employees is subject to collective bargaining agreements.

Environmental Matters

Registrant does not believe that compliance with Federal, State or Local provisions relating to the protection of the environment have any material effect on its capital expenditures, earnings or competitive position.

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Information as to classes of similar products:

The Company sells and services predominately one type of product, that being test, measurement and calibration products.

Information Regarding Export Sales

Approximately 14.0 percent of Transmation's sales in 2001 resulted from sales in foreign countries. This compares with 14.9 percent of sales in 2000 and 18.8 percent of sales in 1999. In fiscal 2001, the percentage of foreign sales achieved compared to fiscal 2000 declined primarily as the result of the U.S. dollar being stronger in terms of other currencies throughout 2001 than it was in fiscal 2000. In 2000, the percentage of foreign sales decreased compared to 1999 as the result of the acquisition of Metermaster, Inc. in February 1999. Metermaster's business is conducted entirely in the United States. Sales in foreign countries generate relatively the same profit margins as domestic sales. During fiscal 1998, many Asian currencies weakened significantly compared to the U.S. dollar and that weakness continued throughout 2001. The Company believes the stronger U.S. dollar contributed to reduce sales in all years 1999-2001, below levels, which would otherwise have been anticipated from Asian markets. Those markets are areas of significant market potential for the Company. Management believes that continued weakness in Asian currencies will have a negative influence on our future sales to Asia although it is impossible to predict the magnitude of such impact. In addition, Transmation's revenues are subject to the customary risks of operating in an international

environment, including the potential imposition of trade or foreign exchange restrictions, tariff and other tax increases, fluctuations in exchange rates and unstable political situations, any one or more of which could have a material adverse effect on the Company's business, prospects, results of operations and financial condition.

The information contained in Note 2 to the Financial Statements of this report is incorporated herein by reference.

Item 2. Properties

During 1999, Transmation sold its former facility at Mt. Read Boulevard in Rochester, New York for net proceeds totaling approximately \$423,000. The operations of both its former Instrument Division manufacturing division and its Altek subsidiary were consolidated into a facility of approximately 27,000 square feet at 35 Vantage Point Drive in Rochester, New York on April 1, 1999. The lease for this space will expire in March 2009.

In addition, Transmation has leased an additional 26,000 square feet of space in Rochester. This space is being used for certain executive, administrative, sales and service purposes. The lease for this space will expire in October 2002.

Various sales office and CalLab space is leased by the Company and its subsidiary, Transmation (Canada), Inc., and is considered adequate to meet both present and future needs in those locations. (See Note 6 to the Financial Statements.)

Generally, Transmation's present facilities are being fully utilized and are considered suitable for its current needs and there is no present requirement for significant additional space. Any expansion or change in business facilities as the result of a consolidation of manufacturing operations will be made in the future, if necessary.

Item 3. Legal Proceedings

Not Applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable.

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Part II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's Common Stock is traded in NASDAQ under the symbol TRNS. A record of actual transactions in Transmation's stock is reflected in the following table:

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Increases (Decreases) in Consolidated Operating Results Compared to Prior Year.

	\$000			
	2001		2000	
	Change from Prior Year	%	Change from Prior Year	%
Net Sales	\$(4,400)	(6)	\$9,095	13
Costs and Expenses: Cost of Products Sold(5,708)(10)10,01821 Selling and Administrative Expenses(1,175)(6)2,81616 Research and Development Costs(347)(23)(104)(6) Interest Expense(408)(14)71432 Income from Operations3,238115(4,349)(282) Other Income(246)(100) Income (Loss) Before Income Taxes3,238115(4,595)(257) Provision for Income Taxes(235)(74)1,056143 Net Income (Loss)\$3,003121\$(3,539)(337) Earnings (Loss) Per Share Diluted\$.51121\$ (.59)(347)				

Net Sales

The 6% decrease in net sales in 2001 compared to 2000 is primarily attributable to lower demand for the Company's products and services from international markets as the result of the strong U.S. dollar compared to international currencies, lower sales of modified meters in 2001 compared to 2000 when Transmation was able to reduce backlogs for such products which had built up for Metermaster prior to its acquisition by Transmation and reduced customer purchasing activity in the U.S. as the result of the weakening of the U.S. economy throughout fiscal 2001.

The 13% increase in net sales in 2000 compared to 1999 is primarily attributable to the acquisition of Metermaster by Transmation in February 1999.

Cost of Product Sold

Cost of product sold decreased by \$5,708,000, or 10%, in 2001 compared to fiscal 2000. The decrease in fiscal 2001 is the result of lower sales volumes in fiscal 2001 compared to fiscal 2000 combined with there being no write down of excess and obsolete inventories such as occurred in fiscal 2000 when approximately \$2,600,000 of such inventories were written off.

Cost of product sold increased by \$10,124,000, or 21%, in 2000 compared to 1999. During 2000, the Company identified \$2,600,000 of excess and slow-moving inventory within its Transcat Division. This accumulation of unusable inventory resulted from overly aggressive sales forecasting and the failure to properly take advantage of vendor restocking policies on a timely basis. The Company has implemented procedures which should reduce its exposure to future inventory writedowns resulting from such occurrences. Additionally in 2000, the Company began its MetersandInstruments.com subsidiary. This subsidiary sells products to customers over the World Wide Web at discounts to prices otherwise available in the marketplace. Discounts offered through this sales channel reduce margins the Company would otherwise achieve. Further, in 2000, the Company sold proportionately more lower margin distribution product than in 1999 also causing further erosion of the Company's gross margin compared to 1999.

Selling and Administrative Expenses

Selling and administrative expenses decreased by \$1,175,000 in fiscal 2001 compared to fiscal 2000. Fiscal 2001 benefited from reduced severance charges of approximately \$384,000 and lower charges to bad debts compared to fiscal 2000 of approximately

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\$150,000. Additionally, the Company sought to reduce selling and administrative costs as much as possible in fiscal 2001 achieving, in total, an additional \$641,000 of such reductions in fiscal 2001 compared to 2000.

Selling and administrative expenses increased by 15% in 2000 compared to 1999. In addition to increases which resulted from higher sales volumes, one-time charges including \$468,000 for severance payments and a \$150,000 charge to increase the reserve for bad debts are included in the 2000 amounts. Exclusive of those one-time charges, selling and administrative costs increased by 11.7% in 2000, a rate somewhat lower than the rate of sales increases achieved in 2000.

Research and Development

Research and development costs decreased by 23% in 2001 compared to 2000 and by 6% in 2000 compared to 1999. Spending in the Company's research and development effort is considered appropriate to enable the Company to maintain its competitive position in the marketplace.

Interest Expense

Interest expense decreased by 14% in fiscal 2001 compared to fiscal 2000. In fiscal 2000, lenders imposed a significant interest charge on Transmation due to its failure to comply with certain financial covenants required by its borrowing agreement. No such charge was incurred in fiscal 2001. Additionally, despite significantly higher interest rates in effect in fiscal 2001 compared to fiscal 2000, because Transmation was able to reduce its bank debt by nearly \$4,200,000 in fiscal 2001, interest charges incurred were lower than would have resulted had the debt repayments not

been accomplished.

Interest expense increased by 32% in 2000 compared to 1999. This increase is the result of higher rates and higher average borrowings in 2000 compared to 1999 combined with a charge imposed by Transmation's lenders during the third quarter of fiscal 2000 due to Transmation's failure to comply with certain financial covenants of its borrowing agreement, which failures were waived by the lenders as of March 31, 2000.

Other Income

There was no other income in 2001 or 2000.

Other income in 1999 is comprised of the profit realized on the sale of the Company's former manufacturing facility in Rochester, New York. The Company consolidated both of its manufacturing operations into a single location on April 1, 1999.

Income Taxes

The Company's effective income tax benefit for fiscal 2001 is 19.7% compared to an income tax benefit of 11.4% in fiscal 2000. The Company's effective income tax benefit in 2000 was 11.4% compared to an effective tax rate of 41.3% on pre-tax profits in 1999. The tax benefits recognized in both fiscal 2001 and fiscal 2000 result from the utilization of net operating losses and the reversal of valuation allowances.

Impact of Inflation

The effects of inflation have not been significant to Transmation during 2001-1999 because inflation rates have been relatively low.

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Liquidity and Capital Resources:

Cash Flows

	\$000		
	2001	2000	1999
Cash Provided (used) by:			
Operating			
Activities	\$5,126	\$293	\$4,642
Investing			
Activities	\$(1,270)	\$(1,491)	\$(2,768)
Financing			
Activities	\$(4,014)	\$1,355	\$(2,165)

Operating Activities

Net cash from operations totaled \$5,126,000 in fiscal 2001 and increase of \$4,833,000 compared to fiscal 2000. The primary reasons for the increase in cash provided from operations in fiscal 2001 compared to fiscal 2000 was the net profit of \$513,000 achieved in fiscal 2001 compared to the net loss of \$2,490,000 recorded in fiscal 2000 combined

with reductions in trade accounts payable of only \$474,000 in fiscal 2001 compared to reductions in trade accounts payable which totaled \$4,588,000 in fiscal 2000 when Transmation liquidated payables which were acquired as the result of the Company's Metermaster acquisition.

Net cash from operations totaled \$293,000 in 2000, a decrease of \$4,350,000 from 1999. The primary reason for reductions in cash provided from operations in 2000 compared to 1999 was the net loss of \$2,490,000 recorded in 2000 together with the reduction in trade accounts payable of \$4,588,000 in 2000. Offsetting the foregoing uses of cash for the Company in 2000 were amortizations of goodwill and catalog costs together with depreciation which totaled \$4,808,000 in 2000 compared to \$3,057,424 in 1999, and the reduction of inventories by \$2,933,000 in 2000 (of which \$2,600,000 resulted from a one-time charge) compared to an increase in inventories of \$500,000 in 1999.

Investing Activities

Cash used in investing activities totaled \$1,270,000 in fiscal 2001 compared to \$1,491,000 in fiscal 2000.

Cash used in investing activities totaled \$1,491,000 in 2000 compared to \$2,768,000 in 1999. The Company received a return of deposits totaling \$457,000 relating to its purchase of Metermaster, Inc. in 1999. Capital assets acquired totaled \$1,270,000 in 2001, \$1,949,000 in 2000 and \$1,702,000 in 1999.

There are no material commitments for capital expenditures in fiscal 2002 as of this date.

Financing Activities

In 2001, the Company reduced its debt by \$4,190,000. Term debt was reduced by \$2,700,000 and amounts borrowed under the Revolving Credit were reduced by \$1,490,000. The Company received \$176,000 from the issuance of stock under its director's stock plan in 2001.

In 2000, the Company increased its debt by \$1,027,000. Term debt was reduced by \$2,200,000 in 2000 using proceeds from its available line of credit which increased by \$3,227,000 in 2000. The Company received \$329,000 from the issuance of stock under its stock option, directors' stock plan and stock purchase programs in 2000.

New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain

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derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. For a derivative not designated as a hedging instrument, changes in the fair value of the derivative are recognized in earnings in the period of change. The Company must adopt SFAS No. 133 in the first quarter of fiscal 2002. The adoption of SFAS No. 133 will not have a material effect on the financial position or operations of the Company.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* (SAB No. 101). SAB No. 101 provides additional guidance on revenue

recognition as well as criteria for when revenue is generally realized and earned. The Company adopted SAB No. 101 effective in the fourth quarter of fiscal 2001 and there was no impact on its results of operations and financial position.

Forward-looking Statements

This Report may contain forward-looking statements based on current expectations, estimates and projections about Transmation's industry, management's beliefs and assumptions made by management. Words such as "anticipates", "expects", "intends", "plans", "believes", "seeks", "estimates", variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to forecast. Therefore, actual results may differ materially from those expressed or forecast in any such forward-looking statements. Transmation undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to changes in interest rates results from investing and borrowing activities. At March 31, 2001, the Company has no interest rate swap agreements in place which would limit its exposure to upward movements in interest rates. In the event interest rates were to move up by 1%, interest expense would increase by approximately \$252,000 compared to that which would result if rates were to be constant and at rates which existed at March 31, 2001. If rates were to fall by 1% from those which existed at March 31, 2001, the Company's interest expense would fall by approximately \$252,000 in the upcoming year assuming average borrowing levels remained constant from year to year.

More than 92% of the Company's sales are denominated in U.S. dollars. The remainder of the Company's sales are denominated in Canadian dollars. A 10% change in the value of the Canadian dollar to the U.S. dollar would impact the Company's revenues by less than 1%. The Company monitors the relationship between the U.S. and Canadian currencies on a continuous basis and adjusts sales prices for products and services sold in Canadian dollars as appropriate to safeguard the profitability of sales recorded in Canadian dollars.

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Consolidated Balance Sheet As of March 31, 2001, 2000 ¹⁴ Consolidated Statement of Operations For the years ended March 31, 2001, 2000, 1999 ¹⁵ Consolidated Statement of Cash Flows For the years ended March 31, 2001, 2000, 1999 ¹⁶ Consolidated Statement of Stockholders' Equity For the years ended March 31, 2001, 2000, 1999 ¹⁷ Notes to Consolidated Financial Statements ¹⁸ Schedule II Valuation and Qualifying Accounts For the years ended March 31, 2001, 2000, 1999 ²⁹ All other schedules have been omitted because they are not applicable or the required information is shown in the Financial Statements	

or notes thereto

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Report of Independent Accountants

To the Stockholders of Transmation, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Transmation, Inc. and its subsidiaries at March 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Rochester, New York

May 11, 2001, except for the third paragraph of Note 5, which is as of July 13, 2001

Table of ContentsTransmation, Inc.
Consolidated Balance Sheet

	<u>March 31, 2001</u>	<u>March 31, 2000</u>
ASSETS:		
Current		
Assets: Cash	\$176,834	\$508,453
Accounts Receivable, less allowance for doubtful accounts of		

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\$355,700 in 2001, and
 \$363,500 in
 2000
 10,752,232
 11,635,069
 Inventories
 8,398,934
 8,834,612
 Income
 Taxes
 Receivable
 858,724
 963,343
 Prepaid
 Expenses and Deferred
 Charges
 1,037,887
 1,577,413
 Deferred
 Tax Assets
 411,286
 582,427

Current
 Assets
 21,635,897
 24,101,317
 Properties,
 at cost, less accumulated
 depreciation
 5,746,506
 6,542,814
 Goodwill,
 less accumulated amortization
 of \$4,965,517 in 2001 and
 \$3,726,805 in
 2000
 19,915,691
 121,245,824
 Deferred
 Charges
 130,469
 185,379
 Other
 Assets
 293,103
 283,394

\$47,721,666
 \$52,358,728

LIABILITIES AND
 STOCKHOLDERS

EQUITY: Current

Liabilities: Current Portion of
 Long-Term

Debt
 \$3,980,000
 \$2,700,000
 Accounts
 Payable
 6,630,082
 7,103,734
 Accrued
 Payrolls, Commissions and
 Other
 1,960,131
 2,418,299

Current

Liabilities
 12,570,213
 12,222,033
 Long-Term
 Debt
 21,223,607
 26,693,400
 Deferred
 Compensation
 293,830
 360,108
 Deferred
 Tax
 Liabilities
 304,668
 269,480

34,392,318
 39,545,021

Stockholders' Equity: Common

Stock, par value \$.50 per
 share Authorized 30,000,000
 shares
 3,094,477
 3,050,159
 Capital
 in Excess of Par
 Value
 2,957,854
 2,826,208
 Accumulated
 Other Comprehensive
 Income
 (305,160)
 (131,695)
 Retained
 Earnings
 8,035,492
 7,522,350

13,782,663 13,267,022 Treasury
 Stock, at cost, 119,358 shares
 in 2001 and
 2000 (453,315) (453,315)

13,329,348 12,813,707

\$47,721,666 \$52,358,728

See Notes to Consolidated Financial Statements

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Transmation, Inc.
 Consolidated Statement of Operations

For the Years Ending March 31,

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Sales:			
Product			
Sales	\$58,212,220	\$62,491,171	\$54,094,328
Service			
Sales	17,356,318	17,477,578	16,778,959
	<hr/>	<hr/>	<hr/>
Net Sales	75,568,538	79,968,749	70,873,287
	<hr/>	<hr/>	<hr/>
Costs and Expenses:			
Cost of Product			
Sold	39,266,567	46,377,148	36,890,625
Cost of Services			
Sold	13,263,312	11,860,808	11,329,015
Selling and Administrative			
Expenses	18,921,126	20,096,327	17,280,778
Research and Development			
Costs	1,165,953	1,513,077	1,616,747
Interest Expense	2,522,838	2,930,499	2,216,262
	<hr/>	<hr/>	<hr/>
Total Costs and Expenses	75,139,796	82,777,859	69,333,427

428,742(2,809,110)1,539,860Other Income,
Gain on Sale of Land246,341

Income (Loss) Before
Taxes428,742(2,809,110)1,786,201(Benefit)
Provision for Income
Taxes(84,400)(319,000)737,100

Net Income
(Loss)\$513,142\$(2,490,110)\$1,049,101

Net Income (Loss) Per Share Basic\$
.09\$(.42)\$.18

Net Income (Loss) Per Share Diluted\$
.09\$(.42)\$.17

See Notes to Consolidated Financial Statements

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Transmation, Inc.
Consolidated Statement of Cash Flows

For the Years Ending March 31,

<u>2001</u>	<u>2000</u>	<u>1999</u>
-------------	-------------	-------------

Cash Flows from Operating Activities
Net Income
(Loss)\$513,142\$(2,490,110)\$1,049,101Adjustments
to reconcile net income to net cash provided
from operating activities:Depreciation and

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Amortization 4,546,227 4,807,518 3,057,424 Increase
in CSV of Life Insurance
Policies (9,709) (20,596) (9,285) Provision for
Losses on Accounts
Receivable (7,800) (185,500) (108,000) Deferred
Income
Taxes 206,329 (106,000) 782,982 Provision for
Losses on Inventories 2,690,318 257,624 Gain
on Sale of Land, Net (246,341) Changes in
Assets and Liabilities
Accounts
Receivable 890,637 1,851,587 1,667,477 Inventories 435,678 242,704 (758,078) Prepaid
Expenses and Deferred
Charges (646,384) (967,908) (398,607) Other
Assets 123,230 Accounts
Payable (473,652) (4,588,072) 757,001 Other
Liabilities (366,747) (132,628) (723,835) Income
Taxes
Receivable/Payable 104,619 (737,087) (606,657) Deferred
Compensation (66,278) (71,501) (78,372)

Net Cash Provided by Operating
Activities 5,249,292 292,725 4,642,434

Cash Flows from Investing Activities: Proceeds
from Sales of Land, Net 423,000 Purchase of
Metermaster, Inc. 457,487 (1,488,553) Purchase
of
Properties (1,393,617) (1,948,698) (1,702,397)

Net Cash used in Investing
Activities (1,393,617) (1,491,211) (2,767,950)

Cash Flows from Financing
Activities: Purchase of Treasury
Shares (453,315) (Decrease) Increase in Notes
Payable (2,500,000) Repayment of Long-Term
Debt (2,700,000) (2,200,000) (1,264,000) Revolving
Line of Credit,
Net (1,489,793) 3,226,500 (5,780,266) Issuance
of Common
Stock 175,964 328,941 404,838 Proceeds from
Long-Term Debt 7,428,000

Net Cash (Used) Provided By Financing
Activities (4,013,829) 1,355,441 (2,164,743)

Effect of Exchange Rates on
Cash(173,465)68,873(79,780)

Net Increase (Decrease) in
Cash(331,619)225,828(370,039)Cash at
Beginning of Period508,453282,625652,664

Cash at End of
Period\$176,834\$508,453\$282,625

Cash Paid for Interest and Income Taxes is as
follows:Interest
Paid\$2,682,534\$2,961,025\$2,269,866Taxes
(Refunded)
Paid\$(109,753)\$293,502\$642,094Supplemental
Schedules of Non-Cash ActivitiesLiabilities
Assumed from
Acquisitions\$6,895,398Adjustments to
Goodwill\$91,421Non-Cash Contributions to
Joint Venture\$123,230

See Notes to Consolidated Financial Statements

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Transmation, Inc.
Consolidated Statement of Stockholders' Equity

	Number of Shares of \$.50 Par Value Common Stock Out- standing	Common Stock Issued and Outstanding	Capital in Excess of Par Value	Retained Earnings	Accumu- lated Other Compre- hensive (Loss) Income	Treasury Stock	Total
Since March 31, 1998	5,830,942	\$2,915,471	\$2,227,117	\$8,963,359	\$(120,788)		\$13,985,159
Components of Comprehensive Income: Net							
Income1,049,1011,049,101							
Currency Translation(79,780)(79,780)							

Comprehensive Income969,321

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Transmation, Inc.
Notes to Financial Statements March 31, 2001, 2000 and 1999

Note 1 Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Description of Business

Transmation, Inc. (Transmation or the Company) is primarily engaged in the sale and distribution, development, manufacture and service of electronic instrumentation which is used principally for measurement, indication and transmission of information.

Principles of Consolidation

The financial statements include the accounts of wholly owned subsidiaries. Investments in affiliates are recorded on the equity method due to Transmation, Inc.'s inability to exercise effective control. All intercompany transactions have been eliminated.

Revenue Recognition

Revenue is recognized at the time products are shipped or service is performed. The Company provides an allowance for returns based upon historical and estimated return rates.

Foreign Operations

The accounts of Transmation's foreign subsidiaries are maintained in the local currency of the countries in which they operate and have been translated to U.S. dollars in accordance with the Statement of Financial Accounting Standards (SFAS) No. 52. Accordingly, accounts representing assets and liabilities, except for long-term intercompany and equity accounts, have been translated at the year-end rates of exchange and related revenue and expense accounts have been translated at average rates of exchange during the year. Gains and losses arising from translation of subsidiaries balance sheets into U.S. dollars are recorded directly to the accumulated comprehensive income component of stockholders' equity. Currency gains and losses on business transactions are included in net income. In 2001 and 1999, transaction losses totaled \$79,884 and \$53,965 respectively. In 2000, transaction gains totaled \$32,485.

Inventories

Inventories are valued at the lower of standard cost or market. Standard costs approximate the average cost method of inventory valuation.

Depreciation and Amortization.

The cost of properties is depreciated over the estimated useful lives of the assets. Depreciation is determined on a straight-line basis. For income tax purposes, depreciation is determined by accelerated methods as permitted under tax regulations. Additions and betterments are capitalized; maintenance and repairs are charged to income. The cost and accumulated depreciation of assets retired or otherwise disposed of are eliminated from the accounts and any resulting gain or loss is credited or charged to income. Leasehold improvements are amortized over the terms of the related leases.

Income Taxes

The Company accounts for certain income and expense items differently for financial reporting purposes than for income tax reporting purposes. Deferred income taxes are provided in recognition of these temporary differences.

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Deferred Catalog Costs

Transmation amortizes the cost of each major catalog it mails over that catalog's estimated productive life. The Company reviews response results from its catalog mailings on a continuous basis. If response results indicate that Transmation should adjust its amortization period from that originally established, such adjustment will be made. Deferred catalog costs totaled \$653,062 at March 31, 2001 and \$1,093,395 at March 31, 2000. Catalog costs expensed in 2001, 2000 and 1999 were \$1,177,682, \$1,202,561 and \$1,369,244 respectively.

Fiscal Year

The Company operates within a conventional 52-week accounting fiscal year ending on March 31st of each year.

Goodwill

Goodwill represents the excess of acquisition cost over fair value of assets acquired at the time subsidiaries were purchased. The excess acquisition cost is being amortized over 20 years on a straight-line basis. The Company evaluates the carrying value of the excess acquisition costs of its subsidiaries whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying value of excess acquisition costs is considered impaired when the projected undiscounted future cash flows from the related business unit is less than its carrying value. The Company measures impairment based on the amount by which carrying value exceeds fair market value. Fair market value is determined primarily using the projected future cash flows discounted at a rate commensurate with the risk involved.

Stock Options

The Company follows the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees , to account for its stock option and warrant activity in the financial statements. The Company granted all options currently outstanding at an exercise price equal to the market price at the date of grant and, therefore, under APB 25, no compensation expense is recorded. The Company follows the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation .

Comprehensive Income

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The Company reports Comprehensive Income under SFAS 130. Other comprehensive income is comprised of net income (loss) and currency translation adjustments.

Reclassification of Amounts

Certain prior year balances have been reclassified to conform with current year presentation with no effect on the Consolidated Balance Sheet or on the Consolidated Statement of Operations.

Recently Issued Accounting Standards

The Financial Accounting Standards Board (FASB) issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities . SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. For a derivative not designated as a hedging instrument, changes in the fair value of the derivative are recognized in earnings in the period of change. The Company must adopt SFAS No. 133 in the first quarter of fiscal 2002. Management does not believe the adoption of SFAS No. 133 will have a material effect on the financial position or operations of the Company.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB No. 101). SAB No. 101 provides additional guidance on revenue recognition as well as criteria for when revenue is generally realized and earned. The Company adopted SAB No. 101 effective in the fourth quarter of fiscal 2001 and there was no impact on its results of operations and financial position.

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Note 2 Business Segments

In fiscal 2001, the Company re-evaluated its operations and determined that it consists of two reportable segments, Product Sales and Service Sales. Both segments sell primarily to one basic industry, the process industry. The Company evaluates performance and allocates resources based on gross profit. The accounting policies of the reportable segments are the same as those described in Note 1. There are no intersegment sales.

2002001999
 — — —

Segment Sales
 Product\$58,212,220\$62,491,171\$54,094,328Service17,356,31817,477,57816,778,959

Total Consolidated Net Sales\$75,568,538\$79,968,749\$70,873,287

Operating IncomeProduct\$18,945,653\$16,114,023\$17,203,703Service4,093,0065,616,7705,449,944

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23,038,659 21,730,793 22,653,647 Unallocated Amounts Selling and Administrative
 Expenses (18,921,126) (20,096,327) (17,280,778) Research and Development Costs (1,165,953) (1,513,077) (1,616,747) Interest
 Expense (2,522,838) (2,930,499) (2,216,262) Other 246,341

Income (Loss) Before Taxes \$428,742 \$(2,809,110) \$1,786,201

Assets Product \$10,229,369 \$11,474,547 \$14,444,535 Service 3,307,701 3,572,645 4,224,816

13,537,070 15,047,192 18,669,351 Unallocated Amounts Cash 176,834 508,343 282,625 Accounts
 Receivable 10,752,232 11,635,069 13,301,156 Income Tax Receivable 858,724 963,343 371,673 Prepaid Expenses and Deferred
 Charges 515,292 768,092 1,008,432 Deferred
 Taxes 411,286 582,427 323,172 Properties 1,261,434 1,325,044 1,337,521 Goodwill 19,915,691 21,245,824 21,738,856 Other
 Assets 293,103 283,394 262,798

Consolidated Total Assets \$47,721,666 \$52,358,728 \$57,295,584

Depreciation and Amortization
 Expenses Product \$1,717,475 \$2,084,545 \$1,688,505 Service 1,040,537 1,093,453 980,124 Unallocated 1,788,215 1,629,520 388,795

Total \$4,546,227 \$4,807,518 \$3,057,424

Capital Expenditures Product \$338,240 \$901,654 \$871,799 Service 783,668 435,544 1,104,722 Unallocated 271,709 611,500 (274,124)

Total \$1,393,617 \$1,948,698 \$1,702,397

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	<u>2001</u>	<u>2000</u>	<u>1999</u>
Geographic Areas			
Net Sales to Unaffiliated Customers (1)United States	\$69,951,615	\$74,058,449	\$65,761,064
Canada	5,616,923	5,910,300	5,112,223
	\$75,568,538	\$79,968,749	\$70,873,287
Long-Lived AssetsUnited States	\$5,647,321	\$6,452,241	\$6,754,375
Canada	99,185	90,573	131,856
	\$5,746,506	\$6,542,814	\$6,886,231

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

Note 3 Inventories

The major classifications of inventory are as follows:

	<u>March 31,</u>	
	<u>2001</u>	<u>2000</u>
Raw Materials and Purchased Parts	3,561,321	\$3,900,063
Work in Process	497,132	612,554
Finished Products	5,253,235	6,493,767
	9,311,688	11,006,384
Less Inventory Reserve	(912,754)	(2,171,772)
	\$8,398,934	\$8,834,612

Note 4 Properties

The major classification of properties is as follows:

	March 31,	
	2001	2000
Machinery, Equipment and Software	\$ 11,884,657	\$ 11,448,528
Tools, Dies and Molds 1,240,086 959,303		
Furniture and Fixtures 1,471,657 1,459,215		
Leasehold Improvements 537,955 404,973		
15,134,355 14,272,019		
Less Accumulated Depreciation and Amortization (9,387,849) (7,729,205)		
\$5,746,506 \$6,542,814		

Useful lives are estimated to be 5 to 10 years for machinery, equipment and software, 3 years for tools, dies and molds, and 5 to 10 years for furniture and fixtures. Leasehold improvements are amortized over the terms of the related leases.

Depreciation expenses totaled \$2,066,695 in 2001, \$2,254,615 in 2000, and \$1,873,673 in 1999.

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Note 5 Long-Term Debt

At March 31, 2001, the Company has a \$31,100,000 Revolving Credit and Term Loan Agreement with banks dated August 8, 1998 amended most recently on August 24, 2000 which extends through June 1, 2007. At March 31, 2001, \$16,100,000 was borrowed under term loans. The term loans require annual repayments for the next five years, as follows:

April 1, 2001	March 31, 2002	\$3,980,000
April 1, 2002	March 31, 2003	\$3,980,000
April 1, 2003	March 31, 2004	\$3,980,000
April 1, 2004	March 31, 2005	\$1,280,000
April 1, 2005	March 31, 2006	\$1,280,000

Interest is payable on a formula basis, at the Company's option, at rates above prime or above LIBOR determined on the basis of Company performance as determined by its leverage ratio. On March 31, 2001, interest to be paid under Term Loans was 2.50% to 3.25% above LIBOR or .50% to 1.00% above the bank's prime lending rate.

At March 31, 2001, \$9,103,607 was borrowed under the Revolving Credit Portion of the Company's credit facility. On July 13, 2001, the Company completed negotiations to extend the term of the Revolving Credit Facility, and it will now expire in August 2002. Maximum borrowings under the Revolving Credit Facility are based on the level of the Company's eligible accounts receivable and inventory, and cannot exceed \$12,500,000. Interest payable under the

Revolving Credit Facility is initially .75% above the bank's prime lending rate, and is subject to adjustment starting in December 2001 to an amount which is dependent on the Company's level of debt.

The revolving credit and term loan agreement contains, among other provisions, requirements to maintain minimum levels of net worth, to meet minimum fixed charge coverage ratios and leverage ratios throughout the term of the loans.

Additionally, the Company has pledged its personal property and fixtures, including inventory and equipment, and its accounts receivable as collateral security for the loan. Further, the Company has agreed to pay to its lenders an annual commitment fee from .125% to .25%, depending on performance of the Company, of the unused portion of the Lenders' Revolving Credit Committed Amount. The fee is payable quarterly and total commitment fees paid under any unused lines of credit under Revolving Credit Agreements were immaterial in all years 1999-2001. The Company also paid a closing fee in the amount of \$130,000 in conjunction with the Revolving Credit and Term Loan Facility and the amendment thereto; fees are being amortized over the term of the loans.

At March 31, 2001, the Company was in compliance with all provisions of its loan agreement.

Note 6 Leases

The Company has operating leases under renewable agreements covering sales office and manufacturing space. At March 31, 2001, minimum future rental payments due under such leases for space which had an initial non-cancelable term in excess of one year were \$3,464,121 due in monthly installments. Amounts due under these leases are as follows:

2002	\$1,066,036
2003\$839,3402004\$436,2752005\$292,3332006\$239,849Thereafter\$590,288	

Total rental expense under these leases was \$1,068,801 in 2001, \$861,672 in 2000 and \$842,371 in 1999.

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Note 7 Stockholders' Equity

In August 1993, an incentive Stock Option Plan was adopted. This plan was amended and restated in August 1995, 1996, and 1997. Options are available to be granted to employees under the 1993 Plan at prices not less than fair market value at the date of grant and are exercisable in annual installments beginning at the date of grant and expiring up to ten years later.

The following table summarizes the transactions under the plans during 2001, 2000 and 1999:

2001		2000	
No. of Shares	Weighted Average Exercise Price	No. of Shares	Weighted Average Exercise Price

1,457,792 \$4.44 1,607,081 \$4.26

02.16346,5402.96300,7114.57Exercised(153,502)2.13(38,330)2.45Canceled(353,964)\$4.24(342,327)2.80(276,290)6.72

,457,792\$4.441,607,081\$4.26

9,414\$4.85569,303\$4.80667,592\$3.21

640359,306163,519

The following options were outstanding or exercisable as of March 31, 2001:

Options Outstanding			Options Exercisable	
No. of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	No. of Shares	Weighted Average Exercise Price
Range of Exercise Prices:				
\$1.78	\$3.13			
578,280	0.14 years	\$2.36	51,780	\$2.42
\$3.25	\$3.79			
184,808	0.13 years	\$3.69	108,804	\$3.62
\$4.19	\$4.75			
394,160	0.89 years	\$4.62	391,040	\$4.61
\$5.25	\$9.25			
263,220	0.15 years	\$6.81	247,790	\$6.77

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On August 21, 1983, shareholders approved the Directors' Warrant Plan. This Plan was amended and restated in August 1995. The Plan provides that warrants may be granted to non-employee directors of Transmation to purchase

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in the aggregate not more than 200,000 shares of the Company's common stock. The purchase price for shares issued under the Directors' Warrant Plan shall be equal to the fair market value of the stock on the date of the grant of the warrant. A summary of activity under the 1984 Directors' Warrant Plan is as follows:

	<u>No. of Shares</u>	<u>Range of Warrant Prices</u>
Balance, 3/31/98	64,000	\$3.25 - \$7.88
Granted During 1999	24,000	3.75
<hr/>		
Balance, 3/31/99	88,000	3.25 - 7.88
Granted During 2000	24,000	3.06
Canceled During 2000	(16,000)	3.75 - 7.88
<hr/>		
Balance, 3/31/2000	96,000	3.06 - 7.88
Granted During 2001	28,000	2.91
Cancelled and Expired During 2001	(36,000)	2.91 - 7.88
<hr/>		
Balance, 3/31/2001	188,000	\$2.91 - \$7.88

The Board of Directors of the Company has also granted the following non-qualified stock options to certain officers of the Company. All of such options were granted at the fair market value at the date of the grant, are exercisable in equal annual installments beginning at the date of the grant, and expire five years after issuance:

<u>No. of Shares</u>	<u>Grant Price</u>	<u>Date of Grant</u>
47,900	\$3.13	8/15/95
25,000	\$3.79	10/28/98

Proforma information regarding net (loss) income and net (loss) income per share is required by SFAS 123 and it has been determined as if the Company had accounted for options and warrants under the fair value method. To calculate the fair value of the options and warrants awarded, the Company elected to use the Black-Scholes pricing model which produced a weighted average fair value of options granted of \$1.36, \$1.68 and \$2.33 in 2001, 2000 and 1999 respectively.

The following assumptions were used in the pricing model: a weighted average expected option life of five years; an annualized volatility rate of 73.9% for 2001, 58.8% for 2000, and 51.1% for 1999; a weighted average risk-free rate of return of 5.61% in 2001, 6.14% in 2000, and 5.35% in 1999; and no dividends in any year. The Company elected to account for terminations when they occur rather than include an attrition factor into its model.

Proforma (loss) earnings and (loss) earnings per share are as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Pro Forma			
Net (Loss)			
Income	\$(29,761)	\$(2,993,935)	\$246,754 (Loss)
Earnings			
Per			
Share	Basic \$(0.00)	\$(0.50)	\$

	1999	Current	Deferred	Total
Federal		\$(159,900)	\$542,900	\$383,000
State(40,300)68,10027,800Foreign326,300326,300				
	\$126,100\$611,000\$737,100			

The following is a reconciliation of the expected federal income tax provision computed by applying the statutory U.S. federal income tax rate and the income tax provision reflected in the statement of income:

	2001	2000	1999
Computed Expected			
Federal Income			
Tax\$145,700\$(955,100)\$607,300State			
Income Taxes15,15055,40032,900Foreign			
Sales Corporation(38,400)(78,800)Book			
Expense notDeductible for			
Taxes90,650141,00099,700Foreign			
Taxes2,5009,00064,300Valuation			
Allowance(300,000)450,000R&D			
Credit(30,800)Other, Net(19,300)42,500			
	\$(84,400)\$319,000\$737,100		

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The components of net deferred tax assets are as follows:

2001	2000	1999
------	------	------

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Deferred Tax Assets:
 Foreign Net Operating Loss
 Carryforward\$42,160\$123,485Domestic
 Net Operating Loss
 Carryforward\$452,310380,731620,000Deferred
 Compensation99,541136,841175,643Accrued
 Vacation
 Pay166,927159,943201,534Allowance
 for Doubtful Accounts and
 Warranties110,319118,225194,160Reserves
 for Inventory
 Obsolescence346,879825,406426,345Adverse
 Lease Commitments168,000Valuation
 Allowance(150,000)(450,000)(620,000)Foreign
 Tax Credit42,26096,000AMT Credit
 Carryforward77,00086,000

Gross Deferred Tax
 Assets1,145,2361,395,3061,289,167

Deferred Tax
 Liabilities:Goodwill429,035299,739166,212Depreciation468,995530,633561,196Accelerated
 Catalog and Postage
 Write-offs140,588251,987238,587

Gross Deferred Tax
 Liabilities1,038,6181,082,359965,995

Net Deferred Tax
 Assets\$106,618\$312,947\$323,172

The valuation allowance required under SFAS No. 109 Accounting for Income Taxes, had been established for deferred income tax benefits related to certain loss carryforwards that may not have been realized. Even though Transmation has incurred tax losses for the current fiscal year, management believes it is more likely than not that it will generate taxable income sufficient to realize a portion of the tax benefit associated with future deductible temporary differences, net operating loss carryforwards and credit carryforwards prior to their expiration. This belief is based upon, among other factors, changes in operations that have occurred during the last year as well as consideration of available tax planning strategies. Included in the valuation allowance at March 31, 1999 was \$620,000 which related to the deferred tax assets recorded from the Metermaster acquisition. In fiscal year 2000, Transmation elected to account for the Metermaster acquisition as an asset purchase and as a result, the Company forfeited all NOLs which were fully reserved for.

Note 10 Deferred Compensation

On February 28, 1995, William J. Berk, former President of Transmation retired. In accordance with terms of a deferred compensation agreement between the Company and Mr. Berk, payments due under such agreement commenced on March 1, 1995. Mr. Berk is entitled to annual payments amounting to \$96,456 for life. His wife will receive 60% of the annual benefit for her lifetime should she survive him. This deferred compensation agreement was not funded and the estimated present value of the future benefits was recorded as an expense and a liability over the term of Mr. Berk's actual employment.

Note 11 Deferred Profit Sharing

All United States employees of Transmation are eligible to participate in a plan providing certain qualifications are met. Effective April 1, 1981, the Transmation, Inc. Deferred Profit Sharing Plan was adopted. Effective April 1, 1987, this plan was amended from a non-contributory to a contributory defined contribution plan and renamed the Transmation, Inc. Long-Term Savings and Deferred Profit Sharing Plan. Employer contributions are made to the plan at the discretion of the Board of Directors of the Company. Payments of benefits accrued for plan participants will be made upon retirement or upon termination of employment prior to retirement providing certain conditions have been met by the employee prior to termination. There were no company profit sharing contributions made under this plan in any of the periods 2001-1999.

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Note 12 Fair Value of Financial Instruments

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

Cash and accounts receivable:

The carrying amounts reported in the Balance Sheet for cash and receivables approximate their fair value.

Long-term Debt:

The carrying amount of debt under the Company's floating rate revolving credit agreement with a bank approximates its fair value.

Debt-related derivative instruments:

The Company had no debt-related derivative instruments at March 31, 2001. In prior years, the Company had entered into interest rate swaps. These financial instruments have the effect of changing the interest rate of the original borrowing with the objective of minimizing the Company's risk relative to potential increases in interest rates. The notional principal amount of these derivative instruments was \$15,000,000 at March 31, 2000 and 1999. The maturities of such swaps were as follows: \$5,000,000 on February 10, 2001 and \$10,000,000 on August 1, 2001. Underlying base fixed interest rates on these instruments were 5.82% and 6.20% respectively and the spread between those base rates and interest actually paid on loans was periodically adjusted to reflect leverage ratios under the loans. At March 31, 2000 and March 31, 1999, rates ranged from 8.22% to 9.20%. This activity resulted in a substantial portion of floating interest rate debt being swapped into fixed interest rate debt at both March 31, 2000 and 1999. Interest rate swaps effectively hedge interest rate exposures, the net cash amounts paid or received on the agreements are recognized as adjustments to interest expense. Taking into account current interest rates and the current creditworthiness of counterparties, the estimated amount the Company would have received if it had terminated the

agreements at March 31, 2000 was \$114,506. At March 31, 1999, the Company would have paid \$298,279 had it terminated its agreements.

Note 14 Quarterly Financial Information (Unaudited)

2001	Net Sales	Gross Profit	Net Income (Loss)	Diluted Earnings (Loss) Per Share
Fourth Quarter	\$20,171,317	\$6,707,042	\$655,092	\$.11
Third Quarter	\$19,418,206	\$5,482,740	\$84,692	\$.01
Second Quarter	\$17,179,006	\$5,140,825	\$(256,266)	\$(.04)
First Quarter	\$18,800,009	\$5,708,052	\$29,624	\$.01

2000	Net Sales	Gross Profit	Net Income (Loss)	Diluted (Loss) Earnings Per Share
Fourth Quarter	\$20,349,965	\$6,000,621	\$(52,684)	\$(.01)
Third Quarter	\$19,674,400	\$3,111,667	\$(3,011,058)	\$(.50)
Second Quarter	\$19,570,394	\$6,207,266	\$283,448	\$.05
First Quarter	\$20,373,990	\$6,411,239	\$290,184	\$.05

NOTE: In 2000, Quarterly Diluted EPS amounts do not total to the annual Diluted EPS amount due to rounding.

2000 sales amounts are restated for comparative purposes.
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Transmation, Inc.
Schedule II Valuation and Qualifying Accounts
Year Ended March 31,

	Balance at Beginning of Year	Additions/ (Reductions) Charged to Profit and Loss	Acquired in Acquisition	Balance at End of Year
				2001
Allowance for Doubtful Accounts	\$ 363,500	\$ (7,800)		\$ 355,700
				2000
Allowance for Doubtful Accounts	\$ 549,000	\$(185,500)		\$ 363,500
				1999

Allowance for Doubtful Accounts	\$ 592,000	\$ (108,000)	\$ 65,000	\$ 549,000
---------------------------------	------------	--------------	-----------	------------

Additions

	Balance at Beginning of Year	(Reductions) Charged To Profit & Loss	Inventory Acquired Charged to Reserves	Acquisition/ Goodwill	Balance at End of Year
2001					
Inventory Reserves	\$2,171,772	\$(1,259,018)	\$912,754		
2000					
Inventory Reserves	\$1,022,634	\$2,690,318	\$(1,915,645)	\$374,465	\$2,171,772
1999					
Inventory Reserves	\$705,010	\$257,624	\$60,000	\$1,022,634	

	Balance at Beginning of Year	Additions (Reductions) Charged to Profit & Loss	Acquired in Acquisition/ Goodwill	Balance at End of Year
2001				
Deferred Asset Valuation Allowance	\$ 450,000	\$ (300,000)		\$ 150,000
2000				

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Deferred Asset Valuation Allowance	\$ 620,000	\$ 450,000	\$ (620,000)	\$ 450,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
		1999		
<hr/>				
Deferred Asset Valuation Allowance	0		\$ 620,000	\$ 620,000
	<u> </u>		<u> </u>	<u> </u>

Item 9. Changes In And Disagreements With Accountants on Accounting and Financial Disclosure

None.

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Part III

The information required by Items 10 through 13 is presented in the definitive proxy statement to be filed pursuant to Regulation 14A which Transmation will file within the period prescribed in connection with the annual meeting of shareholders to be held on August 21, 2001 and which is incorporated herein by reference.

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management

Item 13. Certain Relationships and Related Transactions

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

- (a) 1. Financial Statements
 - Report of Independent Accountants
 - Consolidated Balance Sheet March 31, 2001, 2000
 - Consolidated Statement of Income March 31, 2001, 2000, 1999

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Consolidated Statement of Cash Flows March 31, 2001, 2000, 1999

Consolidated Statement of Stockholders Equity March 31, 2001, 2000, 1999

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts March 31, 2001, 2000

All other schedules have been omitted because they are not applicable or the required information is shown in the Financial Statements or notes thereto.

3. Index to Exhibits

(2) Plan of acquisition, reorganization, arrangement, liquidation or succession

NOT APPLICABLE

(3) Articles of Incorporation and By-Laws

(i) The Articles of Incorporation, as amended, are incorporated herein by reference to Exhibit 4(a) to the Registrant's Registration Statement on Form S-8 (Registration No. 33-61665) filed on August 8, 1995, and Exhibit 3 (i) to the Registrant's Form 10-Q for the quarter ended September 30, 1999.

(ii) Bylaws, as amended through August 18, 1987, are incorporated herein by reference to Exhibit (3) to the Registrant's Form 10-K for the year ended March 31, 1988.

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(4) Instruments
defining the
rights of
security
holders,
including
indentures Credit
and Loan
Agreement
dated August 7,
1998 between
Transmation,
Inc. and
KeyBank

National Association is incorporated herein by reference to Exhibit 4(a) to the Registrant's Form 10-Q for the quarter ended September 30, 1998. Second Amendment to Credit and Loan Agreement dated as of February 9, 1999 by and among Transmation, Inc., certain Lenders, and KeyBank National Association is incorporated herein by reference to Exhibit 4(b) to the Registrant's Form 8-K dated February 9, 1999. Third Amendment to Credit and Loan Agreement dated as of June 23, 2000 by and among Transmation, Inc., certain Lenders, and KeyBank National Association is incorporated herein by reference to Exhibit 4(a) to

the Registrant s
Form 10-Q for
the quarter
ended June 30,
2000. Fourth
Amendment to
Credit and
Loan
Agreement
dated as of
August 24,
2000 by and
among
Transmation,
Inc., certain
Lenders, and
KeyBank
National
Association is
incorporated
herein by
reference to
Exhibit 4(a) to
the Registrant s
Form 10-Q for
the quarter
ended
September 30,
2000. (9)Voting
Trust
Agreement NOT
PLICABLE (10)Material
Contracts The
documents
listed under
(4) are
incorporated
herein by
reference. Transmation,
Inc. Directors
Stock Plan is
incorporated
herein by
reference to
Exhibit 10 (i)
to the
Registrant s
Form 10-K for
the fiscal year
ended
March 31,

1995. Transmation,
Inc. Amended
and Restated
Directors
Warrant Plan is
incorporated
herein by
reference to
Exhibit 99 (b)
to the
Registrant's
Registration
Statement on
form S-8
(Registration
No. 33-61665)
filed on
August 8,

1995. Transmation,
Inc. Amended
and Restated
1993 Stock
Option Plan is
incorporated
herein by
reference to
Exhibit 99 (c)
to the
Registrant's
Registration
Statement on
Form S-8
(Registration
Statement
No. 33-61665)
filed on
August 8,

1995. Transmation,
Inc. Employees
Stock Purchase
Plan is
incorporated
herein by
reference to
Exhibit 99 (e)
to the
Registrant's
Registration
Statement on
Form S-8
(Registration

No. 33-61665)
filed on
August 8,
1995. Amendment
No. 1 to the
Transmation,
Inc. Directors
Stock Plan is
incorporated
herein by
reference to
Exhibit 10 (i)
to the
Registrant s
Form 10-Q for
the quarter
ended
September 30,
1995. Amendment
No. 2 to the
Transmation,
Inc. Directors
Stock Plan is
incorporated
herein by
reference to
Exhibit 10 (a)
to the
Registrant s
Form 10-K for
the fiscal year
ended
March 31,
1996. Amendment
No. 1 to the
Transmation,
Inc. Employees
Stock Purchase
Plan is
incorporated
herein by
reference to
Exhibit 10(b) to
the Registrant s
Form 10-K for
the fiscal year
ended
March 31,
1996. Amendment
No. 1 to
Transmation,

Inc. Amended
and Restated
Directors
Warrant Plan is
incorporated
herein by
reference to
Exhibit II to the
Registrant s
Form 10-Q for
the quarter
ended
September 30,
1996.

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Amendments
No. 1 and
No. 2 to the
Transmation,
Inc. Amended
and Restated
1993 Stock
Option Plan
are
incorporated
herein by
reference to
Exhibits III
and IV to the
Registrant s
Form 10-Q for
the quarter
ended
September 30,
1996. Amendment
No. 2 to the
Transmation,
Inc.
Employee s
Stock
Purchase Plan
is incorporated
herein by
reference to
Exhibit V to

the Registrant's
Form 10-Q for
the quarter
ended
September 30,
1996. Amendment
No. 3 to the
Transmation,
Inc. Directors
Stock Plan is
incorporated
herein by
reference to
Exhibit 10(a)
to the
Registrant's
Form 10-K for
the year ended
March 31,
1997. Amendment
No. 2 to the
Transmation,
Inc. Amended
and Restated
Directors
Warrant Plan
is incorporated
herein by
reference to
Exhibit 10(i)
to the
Registrant's
Form 10-Q for
the quarter
ended June 30,
1997. Amendments
No. 3 and 4 to
the
Transmation,
Inc. Amended
and Restated
1993 Stock
Option Plan
are
incorporated
herein by
reference to
Exhibit 10(j)
to the
Registrant's
Form 10-Q for

the quarter
ended
September 30,
1997. Amendment
No. 3 to the
Transmation,
Inc.
Employees
Stock
Purchase Plan
is incorporated
herein by
reference to
Exhibit 10(k)
to the
Registrant's
Form 10-Q for
the quarter
ended
September 30,
1997. Amendment
No. 5 to the
Transmation,
Inc. Directors
Stock Plan is
incorporated
herein by
reference to
Exhibit 10(a)
to the
Registrant's
Form 10-K for
the year ended
March 31,
1998. Amendments
No. 3 and 4 to
the
Transmation,
Inc. Amended
and Restated
Directors
Warrant Plan
are
incorporated
herein by
reference to
the Registrant's
definitive
proxy material
filed on July 7,
1998 in

connection
with the 1998
Annual
Meeting of
Shareholders. Amendment
No. 4 to the
Transmation,
Inc. Directors
Stock Plan is
incorporated
herein by
reference to
Exhibit 10(a)
to the
Registrant s
Form 10-Q for
the quarter
ended
December 31,
1998 and
supercedes
Exhibit 10(h)
to the
Registrant s
Form 10-Q for
the quarter
ended June 30,
1997. Amendment
No. 5 to the
Transmation,
Inc. Amended
and Restated
1993 Stock
Option Plan is
incorporated
herein by
reference to
Exhibit 10(a)
to the
Registrant s
Form 10-K for
the fiscal year
ended
March 31,
1999. Amendment
No. 6 to the
Transmation,
Inc. Amended
and Restated
1993 Stock
Option Plan is

incorporated
herein by
reference to
Appendix A to
the Registrant's
1999
Preliminary
Proxy
Statement
which was
filed in
electronic
format on
June 21,
1999. Amendment
No. 5 to the
Transmation,
Inc. Amended
and Restated
Directors
Warrant Plan
is incorporated
herein by
reference to
Appendix B to
the Registrant's
1999
Preliminary
Proxy
Statement
which was
filed in
electronic
format on
June 21,
1999. Amendment
No. 7 to the
Transmation,
Inc. Amended
and Restated
1993 Stock
Option Plan is
incorporated
herein by
reference to
Exhibit 10(b)
to the
Registrant's
Form 10-K for
the fiscal year
ended

March 31,
2000. Employment
Agreement by
and between
Transmation,
Inc. and
Robert G.
Klimasewski
dated as of
April 1, 2000
is incorporated
herein by
reference to
Exhibit 10(a)
to the
Registrant's
Form 10-Q for
the quarter
ended June 30,
2000. Amendment
No. 6 to the
Transmation,
Inc. Directors
Stock Option
Plan is
incorporated
herein by
reference to
Exhibit 10(a)
to the
Registrant's
Form 10-Q for
the quarter
ended
September 30,
2000. (a)Amendment
No. 8 to the
Transmation,
Inc. Amended
and Restated
1993 Stock
Option Plan is
included
herein as
Exhibit 10(a).

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(b)Employment Agreement dated as of January 29, 2001 by and between Transmation, Inc. and Peter J. Adamski is included herein as Exhibit 10(b). (11)Statement re Computation of Per Share Earnings Computation can be clearly determined from Note 8 to the Financial Statements included herein at Item 8. (12)Statements re Computation of Ratios NOT APPLICABLE (13)Annual Report to Security Holders, Form 10-Q or Quarterly Report to Security Holders NOT APPLICABLE (16)Letter re Change in Certifying Accountant NOT APPLICABLE (18)Letter re Change in Accounting Principles NOT APPLICABLE (21)Subsidiaries of Registrant Subsidiaries of the Registrant are included herein as Exhibit 21. (22)Published Report Regarding Matters Submitted to Vote of Security Holders NOT APPLICABLE (23)Consents of Experts and Counsel Consent of PricewaterhouseCoopers LLP is included herein as Exhibit 23. (24)Power of Attorney NOT APPLICABLE (99)Additional Exhibits NOT

APPLICABLE (b)Report
on Form 8-K dated
February 1, 2000 was
filed during the last
quarter of the period
covered by this report
reporting on Item 5.
Other Events and
Regulation FD
Disclosure. (c)See (a) 3.
above. (d)(1)NOT
APPLICABLE (2)NOT
APPLICABLE (3)See
Item 8

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Signature

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, and Rule 12b-15, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRANSMATION, INC.

By: /s/ Peter J. Adamski

Peter J. Adamski,
Vice President Finance

Date: 7/13/01