Operator: Greetings and welcome to the Transcat second quarter fiscal year 2014 financial results conference call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero, on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host Deborah Pawlowski, Investor Relations for Transcat. Thank you, Ms. Pawlowski, you may begin.

Deborah Pawlowski: Thank you, Deven, and good morning everyone. We certainly appreciate your time today and your interest in Transcat. On the call with me today are President and Chief Executive Officer Lee Rudow; and our Chief Financial Officer John Zimmer. After formal remarks, we will open the call to questions-and-answers. If you don't have the news release that was sent out after the market yesterday, it can be found on our website at www.transcat.com.

Let me take a moment first to introduce Lee since he was just recently appointed as CEO. With more than 25 years in the calibration services and electronic test and measurement industry, Lee held a variety of leadership positions at other leading companies in the electronic equipment and services industry before joining Transcat in November of 2011 as COO. Lee was then promoted to President in September 2012. On July 1 this year, Charlie Hadeed retired as CEO and became our Executive Chairman; at that time, Lee was appointed as CEO.

As you are aware, we may make forward-looking statements during the formal presentation and Q&A portion of this teleconference. Those statements apply to future events which are subject to risks and uncertainties as well as other factors that could cause the actual results to differ materially from where we are today. These factors are outlined in the news release as well as the documents filed by the Company with the Securities and Exchange Commission. You can find those on our website where we regularly post information about the Company, as well as on the SEC's website at sec.gov. So, please review our forward-looking statements in conjunction with these precautionary factors.

With that, I'd like to turn the call over to Lee to begin the discussion. Lee?

Lee Rudow: Thank you, Deb. Good morning everyone. We appreciate your time today. Given the solid progress Transcat has made in recent years, we felt like this was a great opportunity to reinitiate our earnings calls. In addition to reporting the quarter's results, our intent is to help you better understand our business, including targeted markets and strategies for growth. I would like to start out by outlining a few components of our strategy. The objective is to offer insight as to how we have driven our top and bottom line growth in addition to strong cash flow in recent years and how we expect to advance that growth over time.

Let's start with Distribution; Transcat is a leading distributor of professional grade handheld test, measurement and control instrumentation. We distribute the industry's top brands such as Fluke, GE, Agilent and Emerson. We've developed our market-leading position by maintaining extensive inventories of high demand products. What differentiates Transcat, and what makes Transcat a unique strategic partner with our top manufacturers, is our ability through effective marketing to create demand for their products and drive sales growth. Currently, our Distribution business represents about 60% of our total revenue.

Also unique to Transcat's position in the distribution market, is that we have to capitalize each and every day on the fact that we're the only major distributor of test-measuring control instrumentation that operates a nationwide network of calibration service laboratories. To that point, while the Distribution business continues to throw off a significant amount of cash, despite margin pressure in the segment, we have focused on leveraging the thousands of daily interactions with our distribution customers to create opportunities to promote our Service segment. In other words, sell products to service customers and sell service to product customers.

On the Service side, we continue to build the business organically and through acquisitions. Our Service business is one of the largest providers of accredited calibration and compliance services in the country. We target regulated industries such as Life Sciences, medical devices, biotechnology and pharmaceuticals and also provide services for industrial manufacturing, energy and utilities and technical manufacturing. We currently have 18 strategically located laboratories in the United States, Canada and Puerto Rico, and we are known in the calibration world as the provider of the highest quality service. We believe our quality approach combined with our comprehensive capabilities and geographic footprint differentiates us in the market and combines to create a critical competitive advantage.

To drive organic growth, over the last twelve months we have recruited a significant amount of talent and industry expertise to the organization and we feel strongly that their impact is already being felt as we continue to develop an impressive pipeline of new business opportunities.

In addition to the transactional business opportunities that Transcat has done a great job of servicing in past years, we have now targeted larger opportunities. We call them enterprise accounts. Essentially, they are blue chip customers. They require a longer sales cycle and greater effort, but they result in a far more integrated, intimate and long-lasting relationship. These larger customers are critical to growing our services business because Transcat becomes embedded in their quality process, and ultimately, this drives their current revenue streams and opportunities for growth.

Our ultimate goal is to take market share from the big guys and consolidate the smaller companies in what is a highly-fragmented calibration and compliance market. Our last two acquisitions are great examples. Anacor expanded our suite of services and enabled us to address larger market opportunities within the targeted Life Sciences space. Strategically, we have broadened our addressable market to $1.6 billion by now providing the majority of services our customers need to address their regulation and regulatory requirements. Our vertically integrated suite of services will set us apart from the competition and continue to provide opportunities for growth and increased profitability. The Cal-Matrix acquisition strengthened our presence in Canada and expanded our footprint in the region. We are at the tail end of integrating both Anacor and Cal-Matrix and see acquisition opportunities continuing to play an important role in Transcat's growth for the future.

So, in the second quarter, we continued to execute well against our strategic plan. Both our second quarter results as well as our year-to-date numbers are very much in line with what we expected at the outset of the year. Our Service segment continues its quarter-to-quarter double-digit growth trend. Distribution produced expected revenue growth and we are pleased to report that year-to-date operating income is up 37.1% over prior year, with a 33% increase in earnings per share.

So with that, let me turn it over to John to go through our second quarter results.

John Zimmer: Thank you, Lee, and good morning everyone. Included in our second quarter results which ended September 28, 2013, were those of Anacor Compliance Services acquired on July 16, 2012, and Cal-Matrix Metrology acquired on January 25, 2013.

For the second quarter, we had total revenue of $28.9 million, an increase of 7.8% from $26.8 million in the second quarter of fiscal 2013. As expected, we achieved strong Service segment growth of 16.6% to $11.5 million in the quarter, attributable to incremental revenue from recent acquisitions and growth from new customer revenue. We also reported higher Distribution segment sales by 2.7% to $17.4 million, despite one less selling day this past quarter. On a per business day basis, sales improved 4.5% over the prior-year period.

Our Service segment gross profit was higher when compared with the second quarter of fiscal 2013, though our gross margin was slightly lower. Ordinarily, we would expect to see an expansion of our gross margin with revenue growth, however, a large portion of our growth came from acquired revenue which included costs associated with an additional lab in Canada. Also, to a lesser extent, we saw a slight uptick in the amount of outsourced service work which generally has lower margins.

Distribution segment gross profit increased 10.5% to $4.1 million, and our gross margin for this segment improved 160 basis points to 23.6%, primarily due to volume-based vendor rebates. This was offset partially by increased discounting to maintain our market leadership position. Vendor rebates are generally variable and based on year-over-year growth on product sales. In the quarter, we recognized a larger rebate accrual due to our success in growing sales of certain products.

Our total selling, marketing and warehouse expenses increased 11.4%, or $336,000, to $3.3 million reflecting our ongoing investment in our sales organization to drive our Service business. Of note, we now have four people actively selling compliance services where last year we had none. Also included were expenses for technology enhancements.

These Service segment increases were somewhat offset by cost control measures within the Distribution segment. Administrative expenses for the period included some non-cash stock-based compensation expense.

Operating income for the second quarter of fiscal 2014 was $1.3 million, an increase of 8.6% from the prior fiscal year period. Operating margin was consistent year-over-year at 4.4%.

A metric that we use to evaluate our business that is indicative of cash generation is EBITDA. On a consolidated basis, we generated $1.9 million of EBITDA in the second quarter, an increase of 6.7% from the second quarter of fiscal 2013. Service EBITDA was $739,000, consistent with the fiscal 2013 second quarter, while Distribution EBITDA was $1.2 million compared with $1.0 million in the prior-year period. EBITDA is a non-GAAP measure so please review our reconciliation and related disclosure in our release.

Our second quarter net income was $771,000, or $0.10 per diluted share, compared with $745,000, or $0.10 per diluted share, in the prior-year period.

To briefly touch on the year-to-date performance, total revenue increased 11% to $57.6 million from $51.9 million in the first six months of fiscal 2013, reflecting Service segment revenue growth of 25% and Distribution segment sales growth of 3.2%. Gross margin improved 70 basis points to 24.4% and operating margin grew 80 basis points to 4.2%. Both were driven by the leverage in our Service business.

EBITDA for the year-to-date period increased 30.1%, to $3.9 million. Net income was $1.5 million, or $0.20 per diluted share, in the first six months of fiscal 2014 compared with $1.1 million, or $0.15 per diluted share, in the prior-year period.

In July of this year, the Company repurchased 100,000 shares from an unaffiliated shareholder in a privately negotiated transaction for $7 per share, and subsequent to the close of the second quarter, repurchased just under 700,000 shares, in a similar transaction, from a different shareholder for $8.10 per share. Both transactions reflected the strength of our business and belief in our long-term prospects as well as the investment value of our common stock at those respective times.

Year-to-date cash flow from operations for fiscal 2014 was $234,000 compared with $654,000 for the prior-year period. Capital expenditures through the first six months were $553,000 compared with $1.3 million for the comparable period of fiscal 2013 and were primarily used on laboratory capabilities and information technology.

At the end of the quarter, we had $11.3 million in remaining availability under our $20 million revolving credit facility; however $5.6 million was used to repurchase the previously mentioned shares subsequent to quarter end.

That concludes my remarks. Lee, I'll pass it back to you.

Lee Rudow: Okay. Thank you, John. As we proceed through fiscal 2014, we expect continued strong performance on the Service side and to see the operating leverage that's inherent in the business as we expand our top line. The Distribution segment will likely face continued pressure as the changing competitive landscape impacts margins and pricing. But, as I mentioned earlier, it is our intention to maintain our position as a market leader and leverage the unique synergies between our two business segments.

Our longer-range view of the business continues to be a double-digit growth rate in our Service business and a low to mid single-digit rate of growth in our Distribution segment.

As we have successfully demonstrated, we will continue to pursue strategic acquisitions in our Service segment as that supports the segment's expected growth rate.

With that, operator, we'd like to open the call for any questions.

Operator: Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please, while we poll for questions.

Our first question comes from the line of Steve Shaw with Sidoti & Company. Please proceed with your question.

Deborah Pawlowski: Steve, are you there?

Steve Shaw: Hello?

Deborah Pawlowski: Hey Steve, you're on.

Steve Shaw: Sorry, I got on a little late and I haven't really gotten to dive into too much of the quarter. Can you guys just give some color on the current conditions in the wind industry?

Lee Rudow: Sure, Steve, this is Lee. The wind industry, generally speaking, is impacted greatly by the tax credit. The government tax credit, extends for X amount of time, and typically in years. When the tax credit is being supported and offered, there's a lot of construction work and planned construction work that takes place. When the tax credit expires, then there's a lull; they stop business activity, they stop manufacturing and placing turbines in the market and our business typically declines as a result of that. What you see now is the tax credit, which expired in the last year, has been renewed, but it takes a good six months to twelve months before actual manufacturing activity is initiated and sales actually increase as a result of that.

In the interim, between the expiration of the past tax credit and renewing the new one, our business comes generally from service work with customers who focus on maintaining the existing turbines. We're looking for next year to be a strong year based on the fact that the credit has been renewed. We look for fiscal 2015 to be stronger; in fiscal 2014 we've done well in some aspects, for example, the product side of the business. The thermal side has been a little bit lackluster, but we expected that and budgeted accordingly.

Steve Shaw: Okay. And then, again, I don't know if you guys spoke about this. I know you guys like to grow through acquisitions. Is there a specific region of the country that you would like to target or get into?

Lee Rudow: Generally speaking, we mentioned, Steve, that we had 18 strategically located centers of excellence, or calibration laboratories. I won't go into too much detail but there are definitely two to three, or a handful, of locations that we would like to see Transcat expand into. So, the short answer is yes, and three things drive our acquisition strategy. We either look for a bolt-on acquisition that leverages our current infrastructure in any one location; we look to expand our geographic footprint; or typically we like to add capabilities that we don't currently have. Your question relates to geographic footprint and I think our opportunity is to grow in that respect.

Steve Shaw: Okay. Alright, thanks Lee.

Lee Rudow: Okay.

Operator: As a reminder, ladies and gentlemen, if you would like to ask a question, please press star, one, on your telephone keypad.

Our next question comes from the line of Dave Rode with Stifel Nicolaus. Please proceed with your question.

Dave Rode: Good morning, Lee. Good morning, John.

Lee Rudow: Good morning, Dave.

John Zimmer: How are you, Dave?

Dave Rode: I have a question on your comment about solid progress in recent years. I guess it would be aimed towards John. We've had, through 2013, a run of nine years of record revenue consecutively.

John Zimmer: Right. Yes.

Dave Rode: Based on double-digit growth in service and single-digit on the product side, would a goal be for record sales again this year?

John Zimmer: We don't have a specific target or guidance relative to that, but I think that what we've seen so far in the first six months is indicative of the type of growth that we would expect to see from both the Distribution business and the Service business. We've said in the past and we continue to think that our Distribution business should grow in the range of low to mid single digits, and we expect that our Service business should grow in the double-digit range. So, we don't see anything that's going to change that either in the near or the longer term.

Dave Rode: Okay. I know that there was a question on the wind area. My question would be in the energy renaissance that's going on out there in the country, whether it's the exportation of natural gas and others, how do you guys look at the pipeline industry right now for opportunity?

Lee Rudow: This is Lee, Dave. Generally speaking, I would say we think there are good opportunities, especially on the Product side, to sell into the industry, the energy industry obviously that supports fracking and other initiatives. We are expanding our footprint in terms of solar. We've done a lot of work in the last twelve months in the solar field and we think we're doing well there. So, yes, I would agree. As it relates to Service, we are picking up, continuing to develop and work on the wind and solar platforms and to engage with customers there. As those particular product lines for us expand, we'll expand along with them and that's well within our plan to get that accomplished.

Dave Rode: Okay, thank you. You mentioned also, Lee, recruited some new talent. There has been Scott, of course and John recently. It sounds like a path that hopefully, as you guys keep growing, you're going to keep going down that road. What's the general health of the competition that you're up against right now, just perception-wise?

Lee Rudow: That's a great question and I think that there's a real opportunity in the coming years to do significant damage to the competition. In other words, we compete very well against them. The talented individuals in this space very much want to be part of the Transcat team. They see what we're doing. They track the growth, like you investors track the growth, like we track the growth. They see that we're doing the right things in the right way. The platform and the operation that was created on such a firm foundation from Charlie in the past, and that I look to perpetuate it, provides an attractive opportunity for talented people. We are going to need the best of the best. We are going to need talented individuals to execute our strategic plan; that's what we plan on doing. We're going to recruit the best and then we're going to retain them and I think you're going to see the results.

Dave Rode: Thanks. It's great you guys are having a conference call again. I can't remember the last one, but along those lines as far as shareholder relations and such, where are you guys looking to go as far as, again, getting out there a little bit more. This is certainly a start. You certainly seem to have an awfully good story to tell. How do you intend to tell it?

Lee Rudow: John is heading up our Investor Relations initiative. I think it's new, I think it's assertive and so I'm going to let him address that directly.

John Zimmer: Dave, this is John. We are going to be doing more outreach relative to Investor Relations and I believe this is just the first step by initiating conference calls on a quarterly basis, and we will be meeting with investors and prospective investors, at least on a quarterly basis. We're setting aside time to do that and I think you'll start to see more communications from us along those lines. We're definitely focused on getting the message out. I think that's our responsibility and our challenge to make sure that investors and prospective investors understand the story, and it is a good story to tell and make sure that we're driving that proactively.

Dave Rode: Alright, thanks. Congratulations again; I appreciate it.

John Zimmer: Thanks, Dave.

Lee Rudow: Okay, Dave. Thank you.

Operator: Thank you. Our next question comes from the line of Bill Nicklin with NSB Advisors. Please proceed with your question.

Bill Nicklin: Good morning. How are you?

Lee Rudow: Good morning, Bill.

John Zimmer: Hi Bill.

Bill Nicklin: Good. Dave Rode asked the bulk of the question that I was going to ask but maybe just for a little more granularity on that. When you're out recruiting people at this point in the movement of the Company and into broadening the area that you're going after and pushing more service and so forth, what is the thought process you're going through when you're out doing a search for new employees? And then once you get them, kind of where are you pointing them? I think the answer to that will give us a pretty idea of where you're headed over the next year or so.

Lee Rudow: Okay, so it's a good question and I don't want to sound too overconfident but some of what we're doing is recruiting. We know where we have needs and we know where we want to fill those needs, but it's been relatively easy. In other words, we're only a phone call or two, and a decent conversation, away from getting people excited about what we're doing and because our competitors are not doing so well and are not executing properly. People are listening, and when they listen it hasn't been that difficult. So, we're obviously recruiting on the business development end of the business, especially relative to Service, because we believe that's where a big opportunity lies for our company. We believe there's a much bigger Service play and we're going after it.

Getting people onboard has not been difficult. I think as we move forward, I'm not anticipating that to be a challenge either. We have a lot of resources and networking contacts on both sides of the business on the Service side, and by that I mean both on operations and sales. We've exercised and executed some of that relative to the sales side, so I think that we're in a good position to acquire the talent we need when we need it. And you're right, it is focused mostly on the Service side because that's where the biggest opportunity lies and that's what we're focused on, on taking advantage of it.

Bill Nicklin: Is any of this industry-specific that you're trying to target with these people? Or, is it just generally across the entirety of the market that you're going after, or intend to go after?

Lee Rudow: Well generally speaking, we are going to continue to target the Life Science market, so the individuals we're bringing on have acumen relative to selling into that market. I would like to add also that sometimes, and the last three or four people we recruited, at least half of them had very strict non-competes relative to the calibration business, the traditional Transcat calibration business. So, what we have to do in that case is we bring them onboard. We're lucky in that due to the Anacor acquisition, we have this space, this new space in the compliance business and so what we tend to do is we are cycling through, if you will, some of our newer talent through the compliance business which is good for that business and at the same time it gets people onboard.

As these non-competes burn off, and the first one burns off in February and then sort of staggers from there, we will broaden the scope of objectives relative to what we expect from these individuals and it will cover our traditional business as well. So, and at that point we'll be able to take more of a comprehensive approach to gaining market share and expressing our entire value proposition where our newly acquired people, some of them, have been restricted to just the compliance business and we're anxious to get them involved in our entire business. So, I thought I'd add that in; I think that's important.

Bill Nicklin: Yes, that's great. One more: are the people you're hiring, do they have any experience other than in the domestic markets? And, are you at a point where you can start looking at foreign markets? Or, is it just too capital-intensive and human resource-intensive to try to do anything internationally yet, other than in Canada?

Lee Rudow: The first answer would be, yes, some of the recruits have experience globally and can offer some expertise relative to the global markets. But, having said that, I think it's important to note that strategically we believe there's a lot of low-hanging fruit left, plenty of it in the United States, and we are focusing our attention on the United States market because that's where the best opportunities lie. It's not to say that we won't expand globally. I think at some point in time that will be a relevant conversation and I think when we do it, when and if we do it, it will probably be on the coattails of a large customer that takes us there, probably a domestic customer that wants us to perform work, perhaps in Europe as an example. So, we'll get there on the coattails of a customer but it is not in our short-term strategic plan to focus on that because quite frankly, we just have too many opportunities to pursue here in the United States.

Bill Nicklin: Very good. Thank you. That's it for me.

Lee Rudow: Alright, Bill. Thanks.

John Zimmer: Thanks, Bill.

Operator: Thank you. There are no further questions at this time. I'd like to turn the floor back over to Management for closing comments.

Lee Rudow: Okay, so I'd like to thank everyone for joining us in reviewing our Q2 results for fiscal 2014. We appreciate your time. Again, thank you everyone.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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