Operator: Greetings and welcome to the Transcat second quarter fiscal year 2015 financial results conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please push star, zero on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host Deborah Pawlowski, Investor Relations for Transcat. Thank you. You may begin.

Deborah Pawlowski: Thank you, Adam, and good morning, everyone. We certainly appreciate your time today and your interest in Transcat. On the call, I have with me today President and Chief Executive Officer, Lee Rudow and our Chief Financial Officer, John Zimmer. After our formal remarks, we will open up the call to questions.

If you don't have the news release that crossed the wires after market yesterday, it can be found on our website at www.transcat.com. There are slides that accompany today's discussion as well, and you can find them at the same place on the website.

If you would, please refer to slide 2. As you are aware, we may make some forward-looking statements during the formal presentation and Q&A portion of this teleconference. These 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 documents filed by the Company with the Securities & Exchange Commission. You can find those on our website where we regularly post information about the Company or on the SEC's website at sec.gov. Please review our forward-looking statements in conjunction with these precautionary factors.

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

Lee Rudow: Okay, thank you, Deb. Good morning, everyone. Thank you for joining us. Today, we will review our second quarter performance as well as discuss our ongoing strategic initiatives and outlook for the current fiscal year.

For those following along on the slides, I'm starting on slide 3, which is a review of our long-term objectives. Over the past several years, we've been executing our strategy to generate double-digit revenue growth in our Service segment, with income growing at a faster rate than our revenue. In addition, we focused on maintaining and building our market share in our Distribution segment and leveraging the Distribution segment with our Service segment to drive overall growth. At a high level that's our strategy, and we remain firmly focused on its execution. As we've talked about in the recent past, the Service segment offers significant operating leverage, and we've achieved the sales level—a critical mass, if you will—where the Service segment's operating profit is expanding at a faster pace than revenue. We are now beginning to move beyond what we call the inflection point.

We also continue to target and maintain a pipeline of acquisition opportunities. The objective is to consolidate the highly fragmented calibration industry. Our acquisition strategy is to increase our capabilities, our expertise and our geographic footprint, as well as gain greater economies of scale. Relative to our Distribution segment, we intend to maintain and build our market leadership position. This segment is a strong cash generator, and it continues to provide a platform that supports our Service segment growth.

Before I turn things over to John, I do want to review our second quarter results just a bit, and then he'll review them in more detail. We reported record second quarter revenue of $31.1 million. Our Service segment had strong organic growth of nearly 10%, and we're pleased to announce that this marks our 22nd consecutive quarter of year-over-year revenue growth with our Service segment. In Q2, the Distribution segment grew a healthy 6.4%.

This quarter also highlighted the strong operating leverage in our business. The Service segment's operating income increased 2.5 times to $700,000 and on a consolidated basis, operating income grew more than 18% on almost 8% revenue growth for the quarter. The business continues to generate a lot of cash. Adjusted EBITDA was 2.4 million, up 15% over the second quarter of fiscal 2014 and 7.7% of total revenue. Service EBITDA was 10% of the Service revenue.

Looking to the bottom line, net income was $900,000, up 11% over the prior-year period. On a diluted share basis, we were up 20% to $0.12 per share.

With that let me turn things over to John and he'll walk you through our second quarter financial results.

John Zimmer: Thank you, Lee, and good morning everyone. Let's begin with slide 5. As Lee mentioned, we have continued our trend of top line growth, posting record second quarter results on a consolidated basis and record quarterly Service segment revenue. We achieved $12.6 million in Service revenue, a 9.8% increase driven by organic growth, while the Distribution segment saw $18.5 million in sales or 6.4% growth. Additional volume in the Distribution segment more than offset discounting aimed at building upon our market share.

Moving on to slide 6, we realized strong leverage on the Service segment gross profit and operating lines. Gross margin for the segment improved 240 basis points to 26%. While operating income was up 156%, reaching $700,000 with the operating margin expanding 300 basis points to 5.3%. While the Distribution segment saw a 6.4% increase in sales, gross profit was down $500,000 to $3.7 million. The gross margin was primarily impacted by lower vendor rebates compared with the prior-year period. This amounted to 340 of the 390 basis point decline in the segment's gross margin. Vendor rebates tend to be cyclical as expected growth rates are established by some vendors based on prior year performance, and we expect some level of rebate impact to continue over the next two quarters, but to a lesser extent than in the second quarter. Selling and admin expenses were lower for this segment which helped mitigate some of the lower gross profit. As a result, Distribution operating income was down $200,000 for the quarter.

On a consolidated basis, our operating income in the second quarter was $1.5 million, up from $1.3 million in the prior year second quarter. As Lee mentioned previously, this represents 18.3% growth on a 7.7% revenue increase.

We'll now move to slides 7 and 8 where we look at both the contribution margin and Adjusted EBITDA to gauge our performance. Contribution margin by segment excludes corporate expenses and focuses on the operating performance of the segment. We use Adjusted EBITDA because we believe it's a good measure of operating cash flow for each segment. These are non-GAAP measures, so please review our reconciliations and related disclosures in our release and at the end of the slides.

On slide 7, for the quarter, consolidated contribution margin was $3.8 million compared with $3.5 million in the prior-year period. For the Service segment, contribution margin was $1.7 million, or 13% of revenue, and for the Distribution segment, contribution margin was $2.1 million, or 11% of sales.

On slide 8, consolidated, Adjusted EBITDA was $2.4 million compared with $2.1 million in the second quarter of fiscal 2014. The Service segment achieved Adjusted EBITDA growth of $500,000, or 57% over the prior-year period. On a trailing 12-month basis, Service segment Adjusted EBITDA increased 18% over the comparable period in fiscal 2014, and since fiscal 2011 that segment has achieved a 33% compound annual growth rate.

Moving on to slide 9, our second quarter net income increased over the prior-year period to $900,000. This equates to $0.12 per diluted share and growth of 20% over the second quarter of fiscal 2014. Our net income compound annual growth rate since fiscal 2011 is above 9%.

Slide 10 provides detail regarding the strength of our balance sheet. We currently have $16.3 million in long-term debt following our acquisition of Ulrich Metrology in late August. As of the end of the second quarter, we had $10.8 million in availability under our newly amended revolving credit facility, of which we still have $8.3 million that can be used toward acquisitions this fiscal year.

Our year-to-date CapEx was $1.9 million and focused primarily on additional service capabilities and information technology, including C3, our state-of-the-art customer-facing asset management software. We expect full year CapEx to come in around $3.5 million.

Slide 11 illustrates recent key investments and the impact to debt on a trailing 12-month basis. The takeaway is that we are generating cash to fund day-to-day operations and continue to make the investments necessary to fund future growth. As you can see, practically all of our debt at the end of the second quarter was due to investments over the prior 12-month period. That means that all of our investments prior to that period were funded by our operating cash flow. We believe that our balance sheet's structure offers the financial flexibility to facilitate our acquisition strategy, satisfy our working capital requirements, and meet our capital expenditure needs.

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

Lee Rudow: Okay, thanks John. I'd like to take a few minutes to review the strategic growth focus investment initiatives that we've undertaken so far in 2015. John just mentioned a couple of them. In late August, we completed the acquisition of Ulrich Metrology. Ulrich is a leading Canadian provider of accredited calibrations services. They specialize in servicing three major segments: aerospace and defense, industrial manufacturing and healthcare. With the acquisition, we acquired leadership, expertise and a real strong foothold in Montreal, which is a market rich in healthcare opportunities and healthcare companies. In addition, the acquisition allows us to consolidate our current operation in Montreal with the Ulrich operation, ultimately leading to efficiency gains.

As we discussed last quarter during the fiscal 2014 period and into fiscal 2015, Transcat completed significant capital investment in upgrading and redefining Transcat's client-facing software. The C3 Asset Management and Metrology software continues to gain customer confidence, and we are winning additional customers because of the value that it provides for them. We're also on the brink of launching our new state-of-the-art website, targeted to launch within the next week. The new site will allow for improved transactions, enhanced search capabilities, advanced functionality overall, strategic vendor stores, premium content, and a real dynamic platform for marketing our Services segment.

Looking forward, we believe that all of these investments will enable us to continue to execute a strategic plan of driving growth. More specifically, looking to the rest of the fiscal year, we expect continued strength in the Service segment and to see a positive impact from our recent Ulrich acquisition. Overall, we expect to achieve strong consolidated operating income growth for the year.

With that, we will open the call to questions.

Operator: Thank you. At this time, we will 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 push star, two if you'd like to remove your question from the queue. For any participant using speaker equipment, it may be necessary to pick up your handset before pushing the star keys. One moment please while we poll for questions.

We have a question from the line of Steve Stern from Stern Investment Advisory. You may proceed with your question.

Steven Stern: Thank you and good morning. Congratulations on an excellent second quarter.

Lee Rudow: Thank you.

John Zimmer: Thanks, Steve.

Steven Stern: You have been very forthcoming and helpful in sharing with us investors Transcat's acquisition strategy and highlighting the synergies and benefits that accrue to the Company. My question is on divestitures. What are the conditions and disciplines under which you would consider divesting a subsidiary, a branch location or a product service line? Have there been any divestitures over the last five or seven years, and if so were they by spinoff, by sale of assets or sale to local management?

John Zimmer: Steve, it's John Zimmer. I'll answer that question. We haven't had any divestitures over the past five years and, in fact, as long as I've been here over the last eight and a half years, we haven't had any divestitures. What we have done is move locations where it has been advantageous to do so; in other cases, we've actually shut down locations where we weren't meeting our expectations in those markets. Those would be our lab locations and so we have reconfigured over the years the nature of our lab network and the geographic locations, but we haven't had any significant divestitures. We are continuously looking at our return on the investment in each of our markets and each of our product lines from a distribution standpoint to make sure that they're meeting all of our objectives. We measure our labs on a variety of metrics including productivity and the amount of volume in those labs. That typically is going to dictate where we go with a particular location.

Steven Stern: A clear example would be your recent Montreal acquisition where you consolidated the operation Transcat already had in Montreal with the newly acquired company.

Lee Rudow: Steve, that's right, and we're in the process of doing that at the present time. One of the things that motivates us to acquire a company is the bolt-on opportunity, so where we can find a bolt-on and leverage our current infrastructure, we'll do so. That's what's taking place in Montreal.

Steven Stern: Okay, very good. Thank you very much.

Lee Rudow: You're welcome.

Operator: Thank you. As a reminder, if you would like to ask a question, please push star, one on your telephone keypad. One moment while we poll for more questions.

At this time, there are no further questions. I would like to turn the conference back over to Management for closing remarks.

Lee Rudow: Okay, this is Lee. We want to thank everybody for joining us on the call today. Certainly we appreciate your interest and support, and we look forward to updating you on our progress. So everyone have a nice day. Thank you.

Operator: Ladies and gentlemen, this concludes our teleconference for today. You may now disconnect your lines at this time.