Operator: Greetings and welcome to the Transcat Third Quarter Fiscal Year 2016 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. You may begin.

Deborah Pawlowski: Thank you, Christine, and good morning, everyone. We certainly appreciate your time today and your interest in Transcat. Hopefully those on the East Coast were able to get to their office. With me here on the call today, we have Transcat's President and Chief Executive Officer, Lee Rudow; our Chief Financial Officer, John Zimmer; and Vice President of Finance, Mike Tschiderer.

After formal remarks, we will open the call for questions. If you don't have the news release that crossed the wires before the market opened today, it can be found on our website at www.transcat.com. The slides that accompany today's discussion are also on our website.

If you would, please refer Slide 2. 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 with 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. Please review our forward-looking statements in conjunction with these precautionary factors.

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

Lee D. Rudow: Okay. Thank you, Debbie. Good morning, everyone. Thank you for joining us on the call today.

Before I get started, I want to take a moment to introduce Mike Tschiderer, who was named Vice President of Finance last month at the same time that we announced John Zimmer's decision to retire as CFO at the end of March. Mike will succeed John as CFO upon his retirement.

John has made many contributions to Transcat throughout his tenure as CFO. I am personally very grateful for his counsel, dedication, and support in leading the Company. We greatly appreciate his outstanding service and flexibility in planning his retirement to provide adequate time to transition his responsibilities to Mike. All the best, John, as you change course in life.

We are fortunate to have a financial executive of Mike's caliber and experience in place to become our next CFO. Over the course of his career, he has served in several senior financial executive positions, including CFO in multiple industries, as well as having Big Four public accounting experience. We are confident that his financial and business expertise and leadership capabilities will make for a smooth transition as he steps into the CFO role.

Michael J. Tschiderer: Thanks, Lee, for that very nice introduction. Let me say that it is an honor for me to soon assume the position of CFO at Transcat at a time when we are in an active growth mode and expanding our position as an industry leader in calibration services. It's an outstanding opportunity and I am very motivated and committed to doing my best for the Company, our customers, and our investors. I am also looking forward to talking with the investment community as I take on the CFO role, and have an active part in our Investor Relations activities. Glad to be here and it's back to you, Lee.

Lee D. Rudow: Okay. Thank you, Mike.

Turning to our quarterly results, if you are looking at the slides I'll generally be talking to Slide 3. Third quarter results were generally positive. As we mentioned in our earnings release, we generated a 42% increase in Service segment operating income which drove our consolidated results. This segment delivered double-digit revenue growth of 10.5%. This represents 27 consecutive quarters of year-over-year revenue growth for Transcat's Service segment.

From a consolidated revenue growth perspective, our double-digit service growth was offset by a decline in Distribution segment revenue resulting from continued weakness in the industrial environment, particularly the direct and indirect impact from the weakness in oil and gas and the strength of the US dollar.

All in all, our positive performance in this challenging environment can be highlighted by our 30% increase in net income and the strong growth in cash from operations, as we generated $7.4 million year-to-date, up significantly from $1.2 million in the same period last year.

Let me walk you through our segment performances. Our Service segment continues to be our primary growth engine from a revenue and earnings perspective. For the quarter, Service contributed 46% of our total revenue. Service revenue was up nearly 11% to $13.9 million, a record third quarter for this segment. Segment operating income increased 42% and operating margin expanded a 120 basis points.

Strong operating leverage continues to have a very favorable effect on our overall profitability.

Despite a decline in industrial output, we continue to perform well on the organic sales front. Significant life science growth, both in pharmaceuticals and medical devices have offset service softness in the general industry sector, including markets related to oil and gas. We continue to execute our strategic plan and to grow our Service business, particularly in the life science sector.

On the acquisition front, we've done an outstanding job, not only of acquiring companies but acquiring the right companies at the right valuation. Last week, we increased our life science capabilities and expertise in Montréal with the acquisition of Dispersion Laboratories as we continue to fortify and grow our leading position in Canada. Dispersion is the only laboratory in Canada performing robotic mass calibrations, which we anticipate will be an important differentiator as we look to grow our life science revenue in Canada.

Spectrum Technologies, which closed after our quarter-end and right at the end of December, increased our geographic footprint and capabilities as we now offer a full suite of bio-med services throughout the United States. Spectrum Technologies brings annualized revenue of almost $6 million and operating income margins in the 20% range. It is the largest acquisition we have made in several years and we love the strategic fit, as we drive the growth of our life science portfolio.

Moving forward, the acquisition pipeline remains strong and we maintain the financial flexibility to move fast when we identify the right opportunities.

Moving on to Distribution, we all know the industrial macros have been a challenge over the past couple of quarters. About half of our year-over-year distribution decline relates to the turmoil in the oil and gas market, also the strong US dollar has certainly had a derivative effect on Distribution revenue as well. That said, we're encouraged that the rate of decline in Q3 slowed and may be nearing the bottom.

Our consolidated performance, in the face of economic challenges, can be highlighted by three major developments which give us cause for encouragement as we drive through Q4 and enter into fiscal 2017.

Number one, our rapid deployment of web-oriented technology upgrades that allow our Distribution business to compete more effectively on the web and our Service segment to strengthen its value proposition; number two, successful completion and transition of numerous strategic acquisitions; and three, a host of new diversified programs in both segments of our business, including SKU expansion, instrument rentals, and value-added options on many of our products, all of which have generated meaningful operating income.

We believe that economic slowdowns are some of the best times to make our most significant strides and we will continue to make progress in positioning the Company for a strong future.

With that, I'm going to turn things over to John to discuss the quarterly results.

John J. Zimmer: Thank you, Lee, and good morning, everyone.

Before I begin my last earnings call, I want to say what a great experience it has been serving as Transcat's CFO and working with the investment community over the last 10 years. I have enjoyed working with Lee and the rest of his Transcat team in building the Company and positioning it to move to the next level of growth and success.

Mike and I are working very closely and I expect to see a seamless transition when he steps in as CFO. It is with great confidence in the Company's future that I look forward to watching Transcat succeed as I turn my focus toward other life goals.

Moving on to our financial results. Looking at Slide 4, consolidated revenue declined 2.9% in the third quarter to $30.2 million as revenue in our higher-margin Service segment increased by double-digits, offsetting much of the impact of the decrease in the Distribution segment sales.

Looking at the Service segment specifically, third quarter revenue was up by 10.5% to $13.9 million and was comprised of both organic and acquisition-related growth. On a trailing 12-month basis, segment revenue was also up the same 10.5% compared with the fiscal 2015 period. The compounded annual growth rate for Service segment sales since fiscal 2012 is over 12%.

Sales in the Distribution segment declined $2.2 million or 12% to $16.2 million in the quarter due to soft market conditions, as Lee noted.

Moving on to Slide 5, our Service segment continued to deliver strong operating income and operating margins. For the quarter, operating margin expanded 120 basis points to 5.7%. Margins also improved in the Distribution segment with its gross margin increasing 40 basis points to 21.6% due to higher vendor rebates, and its operating margin expanding 100 basis points to 5.4% based on lower segment operating costs from operational efficiencies.

As we said on our last earnings call, we do not expect vendor rebates to negatively impact fiscal '16, and as expected, we're seeing some upside.

We will now move on to Slide 6 where we look at Adjusted EBITDA and EBITDA margin to gauge our performance. We use Adjusted EBITDA because we believe it is 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.

Consolidated third quarter Adjusted EBITDA was $2.6 million, a 12.5% improvement which reflected the robust revenue growth and strong operating leverage in the Service segment. Adjusted EBITDA for the Service segment increased 23% to $1.5 million and segment margin increased 110 basis points to 11%.

In the Distribution segment, Adjusted EBITDA was consistent at $1.1 million.

The consolidated compounded annual growth rate for Adjusted EBITDA since fiscal 2012 was 6.1%, while it was more than 41% for the Service segment which underscores the impressive earnings power of this segment.

On to Slide 7, where we have our bottom line performance, third quarter net income increased 31% to $1.1 million and diluted earnings per share increased 36% to $0.15. Our net income compounded annual growth rate since fiscal 2012 is more than 8%.

Slide 8 provides detail regarding the strength and flexibility of our balance sheet. At the end of the third quarter, we had $19.5 million in availability under our credit facility of which $12 million was available for acquisitions. Some of this availability was used subsequent to quarter-end for the acquisitions of Spectrum and Dispersion.

CapEx was $3.8 million year-to-date, up from $2.7 million last year, and was primarily for expanded Service segment capabilities and acquisition of assets for our growing Rental business.

As always, our strategy involves operating and investing with discipline. We expect total capital expenditures in the range of $4 million to $4.5 million in fiscal ‘16, which is a slightly higher estimate from last quarter. More than half of the estimated CapEx will be focused on increasing our lab capabilities and capacity.

With that, I'll turn it back to Lee.

Lee D. Rudow: Thank you, John. As we near the close the fiscal year, we'll continue to perform well and execute our strategic plan despite headwinds. Total consolidated operating income growth is now likely to be flat or modest, but we are in a great position to drive future growth as industrial markets rebound. We expect double-digit revenue growth in our Service segment through a combination of acquisitions and consistent organic growth. Our acquisition pipeline remains strong and our position as a leading U.S. and Canadian provider of calibration services continues to strengthen.

Looking further out, our strategic plan is structured to enable growth to $175 million to $200 million in revenue within the next five years, and more importantly, to achieve double-digit EBITDA margins at that revenue level.

So with that Operator, we can open the line for 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. Once again, if you would like to ask a question press, star one on your telephone keypad. One moment please, while we poll for questions.

A final reminder, if you would like to ask a question, press star, one on your telephone keypad. One moment please, while we poll for questions.

Our first question comes from the line of Steven Stern with Stern Investment Advisory. Please proceed with your question.

Steven Stern: Good morning and congratulations on an excellent quarterly report and congratulations to John Zimmer on your well-deserved retirement. I've always enjoyed your commentary on these calls.

John J. Zimmer: Thank you.

Steven Stern: The net operating margin expansion is excellent and in, as you say, a headwind environment, the bottom line growth is very, very good. In looking at the release, so much of the improvement or the final thrust of the improvement came from reduction of selling, marketing, warehousing expenses, and holding administrative expenses in line to a little down. What types of things did you do to achieve that and are they one-time adjustments? Are those adjustments that will carry forward into future quarters?

John J. Zimmer: Thank you, Steve, and this is John Zimmer. With the decline in Distribution sales that we've had this year, we have been able to adjust expenses particularly on the Distribution side of the business related to some of our marketing and other expenses related to warehousing and purchasing and other aspects of that side of the business. There is also a little bit less in the year-to-date numbers for performance-based compensation, particularly in the third quarter, there is some of the impact of lower expenses is related to our performance-based comp.

That's not necessarily going to be sustainable, and in fact as we've said, in the fourth quarter, we anticipate that the performance-based comp will be higher this year than last year.

Steven Stern: Okay. Thank you. Then one financing question, the Company seems to have excellent relations with its banks with the renewals and flexibilities on the financing of the lines of credit. Any thought to possibly locking in lower interest rates on the liability side with a public issue or a private issue of a longer duration bond?

John J. Zimmer: We're always looking at the alternatives from a balance sheet perspective as far as how we're going to continue to finance the growth going forward, and I don't think that there is anything that's off the table. But I do think that we do have great relationships with our bank and we're looking at making sure that, and are confident that we'll have capacity going forward to continue to grow the business the way that we have in a trajectory that we've had in the past, but nothing specific as far as that goes.

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

Lee D. Rudow: Thanks.
Operator: We have no further questions at this time. I would now like to turn the floor back over to Management for additional or closing comments.

Lee D. Rudow: So this is Lee. Thank you all for joining us on the call. We certainly appreciate your continued interest and support.

John J. Zimmer: Thank you.

Operator: Ladies and gentleman, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.