Operator: Greetings and welcome to the Transcat, Inc. Second 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.

I would now like to turn the conference over to Deborah Pawlowski, Investor Relations for Transcat. Thank you. Please go ahead.

Deborah Pawlowski: Thank you Brenda, and good morning everyone. We certainly appreciate your time today and your interest in Transcat. With me here on the call are President and Chief Executive Officer, Lee Rudow, and Transcat's Chief Financial Officer, John Zimmer. After formal remarks, we will open the call for questions. If you don't have the news release that crossed the wires after the market closed yesterday, it can be found on our website at www.transcat.com. There are also slides accompanying today's discussion that you can find at the same location on the website.

If you would, please refer to 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 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 Rudow: Okay. Thank you, Debbie. Good morning everyone. Thank you for joining us on today's call. If you're looking at the slides, I'll generally be talking to Slide 3.

Second quarter results were mixed. Our Service segment grew by double digits for the 26th consecutive quarter while sales in the Distribution segment came in lower than expected. The robust sales growth in our Service segment is coming from a combination of excellent customer relationships, organic growth, and successful execution of our acquisition strategy. The primary factor causing the decline in Distribution and consolidated revenue was a significant drop in demand from an already weak oil and gas market. In addition, the strong U.S. dollar had a spillover effect in industrial markets that also put downward pressure on Distribution segment sales.

Let me add some color to our segment performances. The Service segment contributed 48% of our total sales in the second quarter and continues to perform well and on plan. Year-over-year revenue was up nearly 13% to $14.2 million, a record second quarter for the segment. Segment operating income increased 26% and operating margin expanded by 60 basis points.

Generally speaking, we continue to see good things coming out of the Service segment. It continues to be our primary growth engine, both from a revenue as well as an earnings perspective. Our new business pipeline continues to develop well and our business development team continues to drive segment growth. Investments we are making have enhanced our capabilities, flexibility and overall efficiency within the Service segment.

Moving on to Distribution, the current market conditions are challenging, but as we mentioned previously, the launch of new and innovative programs and initiatives are showing early promise. These include a new instrument rental service we established last year. The rental service continues to grow at an impressive pace. The rental service business leverages our existing distribution infrastructure and continues to generate very high margins.

We're also expanding and diversifying our product portfolio on our new ecommerce platform, and as always, we continue to maximize the leverage between our Distribution segment and our Service segment by offering an expanded range of value-added new product calibration options on the products we sell. These programs are in the ramp-up stage, but the early read has been positive and we're confident moving forward they will offset some of the softness in the current Distribution market. We are also seeing positive signs with a pick-up in Distribution sales in October, and we think the worst of the decline may be behind us.

On the acquisition front, we were very active. We think this is an environment that will accelerate opportunities, and we continue to be well positioned to make the right strategic acquisitions. Integration of Apex Metrology Solutions, which was acquired in March, has been completed and the early results are positive. Calibration Technologies, which was acquired in June, deepens our presence in the life science market and brings a strong level of expertise to our analytical team. The new business pipeline for the analytical business is growing and the addition of their leadership is making a meaningful difference. Calibration Technologies has also been fully integrated.

We strengthened our presence in southern California and the life science market with the August acquisition of Anmar Calibration Technologies. Based in San Diego, the operation complements our Los Angeles operation and positions Transcat to capitalize on the high concentration of life science and aerospace opportunities in the region. Both industries are highly regulated and prime targets for our high quality services.

Without question, our recent acquisitions have enhanced our capabilities and expertise and expanded our geographic footprint while leveraging our current infrastructure. Importantly, we continue to have the financial flexibility to move fast on acquisition opportunities and our pipeline for future acquisitions is well developed and growing. We completed several acquisitions in the past 12 months and we see that continuing going forward.

Overall, despite the drop in revenue, net income was up slightly and EPS was consistent, reflecting the growth and strong operating leverage of our Service segment. We continue to generate strong cash; $2.7 million in the quarter and $5.3 million year-to-date. As we continue to fine tune our Distribution business, it continues to generate healthy cash flows.

Fiscal 2016 is shaping up to be a solid year with strong results and growth from our Service segment, excellent acquisitions, and continued progress on initiatives that will enhance the future performance of both segments and the entire business.

With that, I'll turn things over to John and he'll discuss the quarterly results. John?

John Zimmer: Thank you Lee, and good morning everyone. Looking at Slide 4, consolidated revenue declined 5.3% in the second quarter to $29.5 million as revenue in our higher margin Service segment increased by double digits, offsetting much of the impact of the decrease in Distribution segment sales. Looking at the Service segment specifically, second quarter revenue was up by 12.7% to $14.2 million and was comprised of both organic and acquisition-related growth. On a trailing 12-month basis, revenue was up 10.2% compared with the fiscal 2015 second quarter trailing 12 months. We believe that looking at revenue growth on a trailing 12-month basis is more indicative of the long-term progress of the Service segment, which offers our largest and most profitable growth opportunities. Sales in the Distribution segment declined $3.2 million, or 17.4%, to $15.3 million in the quarter due to softer market conditions, as Lee noted.

Moving on to Slide 5, our Service segment continued to deliver strong operating income and operating margins. For the second quarter, operating margin expanded 60 basis points to 5.9%. Those results were offset by a decline in the Distribution segment, and despite higher Distribution segment gross margin due to higher vendor rebates, the Distribution segment's operating margin declined 110 basis points to 3.5%. As we said on our last earnings call, we do not expect vendor rebates to negatively impact fiscal 2016, and we're seeing some upside. We do expect to continue to be price competitive during the remainder of the fiscal year to maintain share and to help offset market softness.

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 second quarter Adjusted EBITDA was $2.4 million, consistent with the fiscal 2015 second quarter. The 27.6% increase in Adjusted EBITDA for the Service segment to $1.6 million was offset by a 31.5% decrease in the Distribution segment. Adjusted EBITDA margin for the Service segment increased 130 basis points. The changes reflect the robust revenue growth and strong operating leverage in the Services segment, and a significant decline in Distribution sales which was partly mitigated by lower operating costs. The consolidated compound annual growth rate since fiscal 2012 was 6% while it was 43% for the Service segment, which underscores the impressive earnings power of this segment.

On to Slide 7, where we have our bottom line performance. Second quarter net income was up slightly to $900,000 while our diluted earnings per share were consistent at $0.12. Our net income compound annual growth rate since fiscal 2012 is about 7%.

Slide 8 provides detail regarding the strength and flexibility of our balance sheet. As of the end of the second quarter, we had $17.5 million in availability under our credit facility. Cap Ex was $2.7 million year-to-date, up from $1.8 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 to be approximately $4 million in fiscal 2016. More than half of the estimated cap ex will be focused on increasing our lab capabilities and capacity.

With that, I will turn it back to Lee.

Lee Rudow: Okay, thanks John. Let me wrap by saying we expect double-digit revenue growth in our Service segment that will be a combination of organic and acquired growth. We've done some great work on the acquisition front over the last year. The pipeline is very strong and we've been engaged in an increased level of activity. Given the weakness in the oil and gas sector and the strength of the U.S. dollar, sales in the Distribution segment will be challenged in the near term, but we believe we're maintaining our market share. We expect the growth in our Service segment and the strong operating leverage to drive fiscal 2016 consolidated operating income growth in the low double digits. Longer term, we're confident in our direction and believe Transcat is well positioned to capitalize on future growth opportunities. The Distribution segment is focused on the right things and we expect distribution to perform well, especially when the market picks up momentum. On the Service side, the life science and the aerospace markets, both of which are highly regulated, are the best places to focus our growth efforts, and we're confident we can keep revenue growth at double-digit levels.

Overall, we believe the impressive growth of our Service business and growing position as a leader in the calibration and compliance service market makes Transcat's long view very compelling.

Operator, with that, we can open the lines for questions.

Operator: Certainly. Ladies and gentlemen, if you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue, and 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 key. Once again, that is star, one to ask a question at this time.

Our first question comes from the line of Chris Reynolds with Neuberger Berman. Please go ahead with your question. Chris Reynolds, your line is currently live. Please go ahead with your question.

Chris Reynolds: Yes, thank you for taking my question. Could you elaborate on the acquisition opportunities? I know they're all different, but maybe provide some color on the valuation and accretion potential from your acquisition program.

Lee Rudow: Okay. I'll give you this much color. Historically, we have acquired companies that are accretive from Day 1, and I think that that will continue to be our goal. I don't see that changing. I mentioned in the call that we have a healthy pipeline, and what that means to me is that, there are various stages within the acquisition pipeline. You've got deals that are just entering the pipeline and some that perhaps are in due diligence, and a few in between, and I think we have, as I stated, a pretty healthy pipeline from beginning to end, and that's a good sign. We think some of that is being driven, as I alluded to, by the market itself. This sort of sluggish market tends to provide increased level of opportunities, so we think that's part of it.

When we look at our pipeline, our strategy has been pretty consistent. We're looking for our geographic footprint to increase and get the coverage we need nationwide. Our pipeline typically has a variety of different capabilities and expertise that we acquire and we also keep geography in mind as well. All that leads to what I would call the healthy pipeline I referred to.

Chris Reynolds: Thank you.

Lee Rudow: Yes, you're welcome.

Operator: Thank you. Once again, as a reminder, you may press star, one on your telephone keypad if you would like to ask a question at this time.

Our next question comes from the line of Fred Milligan with Wunderlich. Please go ahead with your question.

Fred Milligan: I'm not advocating this, but just what goes on, it arouses my curiosity. Why not split into two operations?

Lee Rudow: You're talking about to bifurcate the Distribution and the Service segment?

Fred Milligan: Exactly, exactly.

Lee Rudow: I understand what you're asking. We believe, and historically this has been proven, that there's a lot of leverage between these segments. There's a lot of interaction every business day throughout our account management teams and activity and business development and inside call center for distribution. We really leverage each one of those interactions to support both businesses. We offer value-added services on the Distribution side. One of the differentiators for Transcat is the value-added services relative to the calibration options that we offer on our new equipment, so all these things work in conjunction with one another, and we like to look at it as a one-plus-one-equals-three scenario. For that reason, we continue to operate the way we do today.

Fred Milligan: Okay, thank you.

Lee Rudow: You're welcome.

Operator: Thank you. It seems we have no further questions. I'd like to turn the floor back to Management.

Lee Rudow: Okay, thank you everybody for participating on the call today. We certainly appreciate your interest and support. For those of you in the New York City area, we're going to be attending the Drexel Hamilton conference on November 12, so let us know if you're interested in meeting with us at the conference. Again, thanks for participating.

John Zimmer: Thank you.

Operator: Thank you. Ladies and gentlemen, this concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.