Operator: Greetings, and welcome to the Transcat Incorporated First Quarter Fiscal Year 2017 Financial Results Conference Call. At this time, all participants are in a listen-only mode. If anyone should require operator assistance during the call, 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, Mr. Craig Mychajluk, Investor Relations for Transcat. Thank you, sir. You may begin.

Craig Mychajluk: Thank you and good morning everyone. We certainly appreciate your time today and your interest in Transcat. With me here on the call, we have Transcat's President and CEO Lee Rudow and our Chief Financial Officer Mike Tschiderer. After formal remarks, we will open the call for questions.

If you don't have the news release that crossed the wire after markets closed yesterday, it can be found on our Web site at www.transcat.com. The slides that accompany today's discussion are also on our Web site.

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 with documents filed by the Company with the Securities and Exchange Commission. You can find those on our Web site where we regularly post information about the Company, as well as on the SEC's Web site at sec.gov. Please review our forward-looking statements in conjunction with these precautionary factors.

I would also like to point out that during today's call we will discuss non-GAAP measures, which we believe will be useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of non-GAAP to comparable GAAP measures in the tables accompanying the earnings release.

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

Lee Rudow: Thank you, Craig. Good morning everyone. Thanks for joining us on the call today. I'll start with some highlights for the quarter, and then I'll turn things over to Mike to give you a more in-depth view of the financials, and then I'll wrap things up with an update on our strategy and outlook for the year.

So, we're off to a strong start in fiscal 2017. We achieved record revenue of over $33 million for the first quarter. Our operating income was up 40% and our net income was up 39% on 12% revenue growth. It was the second consecutive quarter that the Service segment revenue exceeded Distribution. That's a trend we expect to see continue, given the trajectory and the earnings potential of the Service segment in the highly regulated markets we target, which include both life science and aerospace.

The Distribution segment is still facing macro-economic headwinds, but our sales in this segment are stabilizing and our first quarter performance showed real progress.

On the acquisition front, we're in various stages of integration and, while we don't present separate standalone results for those transactions, we're pleased with the early read. The acquired staff fit in really well from a cultural perspective and, from day one, they've been engaged in providing real contributions. Put simply, Transcat gets better when smart, hardworking, motivated people join the team and that's exactly what we're seeing with the recent transactions.

Taking a closer look at the Service segment, operating income grew 62% on 27% revenue growth. That's our record top line for Service and the leverage we'd like to see in the segment. Q1 represented our 29th consecutive quarter of year-over-year Service segment revenue growth. Service segment growth and represented 52% of our first quarter revenue. We expect that percentage to increase as we realize sales synergies from the recent acquisitions and continue to develop and drive our organic growth engine.

Growth in the quarter was a healthy mix of both organic and acquisitive growth, and as we've stated previously, growth of our Service segment continues to be fundamental to our strategy. We continue to expect the Service segment to be our primary growth engine and driver of future revenue and earnings for the Company.

Moving on quickly to Distribution, market conditions, primarily weakness in oil and gas and the overall industrial economy, continue to challenge revenue growth, but organic initiatives and incremental sales from the recent Excalibur acquisition stabilized the year-over-year revenue, which is encouraging as stabilization of the Distribution segment is one of our primary important goals for fiscal 2017. The segment continues to have strong underlying value that generates significant cash and provides cross-selling and lead generation opportunities for our Service segment.

The Service and Distribution segments continue to complement one another, even more so with the new platforms of rental and used equipment. The acquisition of Excalibur in April further expanded our Southern California presence and increased our offerings in calibration and equipment services. The acquisition strengthened our position in the regulated aerospace and defense industry by providing a diverse suite of new high end electronic capabilities. The deal not only provides Southern California with a strong platform for organic growth, it also supports organic growth throughout North America, and we expect to realize more leverage as sales and operational synergies are achieved.

So with that, let me turn things over to Mike and let him discuss the results for the quarter and then I'll come back and talk strategy and outlook.

Mike Tschiderer: Thanks Lee and good morning everyone. I will be referring to some of the slides that we posted on our Web site this morning in connection with this earnings release, as we provide some color on the quarter. When discussing the results of the first quarter of this fiscal year, the year-over-year comparisons are impacted by the acquisitions we made in fiscal 2016, including Anmar Metrology in August 2015, Spectrum Technologies in January 2016, Dispersion Laboratories in January 2016 and Excalibur Engineering, which was acquired during the first week of this fiscal year, on April 1st.

On slide 4, consolidated revenue increased 12% to just over $33 million, a record quarter. It was driven by significant growth in our higher margin Service segment. Looking at the Service segment specifically, our revenue was up 27% to a first quarter record of $17.2 million, which was, as we indicated, 52% of our total revenue and was comprised of organic and acquisition-related growth. On a trailing 12-month basis, which we believe is more indicative of the long-term progress of the Service segment, our revenue was up 18%. In the Distribution segment, our sales declined less than 1%, reflecting continued net growth against economic headwinds, mostly offset by the sales initiatives that Lee just touched on, as well as the contribution of the used equipment sales and the rental revenue from Excalibur.

On slide 5, we are very encouraged with the direction of our margins this quarter. Both gross and operating margins in the Service segment increased significantly in the quarter on strong operating leverage from higher revenues. Gross margin expanded 140 basis points to 27.5%

and operating margin was up 130 basis points to 6.1%. Along with strong cost controls, a more favorable product mix and increased revenue from the higher margin equipment rentals, we achieved slightly higher gross operating margins for the Distribution segment, as both were up 10 basis points in the quarter despite the slight decline in sales volumes. On a consolidated basis, gross profit dollars improved almost 17% and gross margin, expressed as a percentage of consolidated revenues, was up 110 basis points. Consolidated operating income increased 40% in the quarter to $1.4 million with operating margin up 80 basis points over the prior year first quarter.

On slide 6, we look at Adjusted EBITDA and adjusted EBITDA margin to gauge our performance. We use Adjusted EBITDA, which is a non-GAAP measure, because we believe it is a good measure of operating cash flow for each segment. I do encourage you to look at the reconciliations we have provided for Adjusted EBITDA to the closest GAAP measures. Adjusted EBITDA growth was strong for both segments in the quarter compared with the first quarter of fiscal 2016. On the Service side, it increased 71% to $2.3 million, and as a percentage of segment sales was 13.6%, up 350 basis points. In the Distribution segment, Adjusted EBITDA was $800,000, up 22%, and as a percentage of segment sales improved 90 basis points to 4.8% year-over-year.

On slide 7, we discuss the leverage from higher sales and disciplined cost management, resulting in first quarter net income increasing by 39% to $800,000. Diluted earnings per share increased 50% to $0.12 per diluted share. We continue to expect our tax rate to range between 34% and 36% for full year 2017.

Slide 8 provides some details regarding the strength and the flexibility of our balance sheet. At the end of the first quarter, we had $11.4 million available under our revolving credit facility, and had approximately $27 million in total outstanding borrowings. We have a good acquisition pipeline, and based on our strong cash flow and flexible balance sheet, believe that we have ample dry powder for any acquisitions that meet our strategic criteria.

Our capital expenditures, or CapEx, were $1 million in the first quarter and were primarily for expanding Service segment capabilities and the purchase of equipment to add to the asset pool for our growing rental business. We also reaffirm that our capital expenditure range will be $5 million to $5.5 million for full year fiscal 2017.

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

Lee Rudow: Okay, thanks Mike. So, we're off to a strong start to fiscal 2017 from an outlook perspective. We expect continued double digit growth in our Service segment. The growth will be supported by the performance of our recent acquisitions and focus on driving organic growth into the highly regulated life science and aerospace industries. And as always, we expect organic growth to fall to the bottom line much faster.

As I mentioned earlier, integration of our recent acquisitions is underway. Cultural back office integrations starts day one, followed by our work to achieve operational and sales synergies. The goal is to drive both growth and efficiency. That process has already started and will continue throughout the year. Excalibur's used equipment and rental business performed very well in the first quarter. We expect that to continue and to provide value to our Distribution segment throughout the year. And it goes without saying, as the volatility in the energy market moderates, we should see more positive momentum in both of our operating segments.

While we continue to integrate the acquisitions, as I just mentioned, we're also going to be working on our pipeline for future opportunities that expand our geographic footprint, expertise and capabilities as we talked a lot about in the past. And, as in the past, we'll continue to be disciplined in our approach and requirements for strong strategic and cultural fit with these acquisitions.

So, the long term plan remains on course. We continue to drive our unique value proposition into the market, and we'll continue to target our revenues between $175 million and $200 million over the next four to five years, and with double digit EBITDA margins at those levels.

So with that, operator, you can open the lines for some questions.

Operator: Thank you. The floor is now open for questions. If you would like to ask a question, please press star, one on your telephone keypad at this time. A confirmation tone will indicate that 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 for you to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

There are no questions so at this time, I'd like to turn the call back over to management for any additional or closing comments.

Lee Rudow: Thank you all for joining us on the call. We certainly appreciate your continued interest in Transcat. For those of you in the Chicago area, we will be at the Midwest IDEAS Investor Conference on August 30th, so let us know if you're interested in meeting face-to-face, and we'll be happy to do so. We will also be at the Sidoti Emerging Growth Conference in New York City on November 1st, and again, you're welcome to meet with us face-to-face. We'd love to see everyone. Again, thanks for participating on today's call. Have a nice day.

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