**Transcat, Inc.**
**First Quarter 2010 Financial Results**
**July 28, 2009**

**Operator:** Greetings, and welcome to the Transcat, Inc. first quarter 2010 financial results conference call. It is my pleasure to introduce your host, Mrs. Deborah Pawlowski, Investor Relations for Transcat Inc. Thank you Mrs. Pawlowski. You may begin.

**Deborah Pawlowski:** Thank you and good morning, everyone. We appreciate your joining us today on Transcat Inc.'s first quarter fiscal year 2010 financial results call. On the call I have with me today, Charles P. Hadeed, President, CEO and COO of Transcat, and John Zimmer, Vice President, Finance and CFO. They will be reviewing the results of the first quarter and progress on the company’s strategy. You should have a copy of the earnings announcement that was released yesterday after the close of the market, and if not, you can access it at the company's website: transcat.com.

As you are aware, we may make some forward-looking statements during the formal discussion as well as during the Q&A. These statements apply to future events and are subject to risks and uncertainties as well as other factors that could cause actual results to differ from what we stated here today. These risks and uncertainties and other factors are provided in the earnings release as well as other documents filed by the company with the Securities and Exchange Commission. These documents can be found at the company's website or also at sec.gov. So with that, let me turn it over to Charlie to begin.

**Charles Hadeed:** Thank you, Debbie, and good morning, everyone. To look back over our first quarter performance, taking into account the impact of the recessionary economic environment, I was relatively pleased with our results. There's no question that our customers in both our business segments had and are continuing to experience challenges, as has Transcat. Notwithstanding those challenges, we have continued to make the appropriate investments and decisions to support our strategic growth objectives. Not unexpectedly, our distribution product segment results were impacted, not only by the volume reduction associated with significantly curtailed customer spending but also by more competitive pricing pressure. I should continue to note that in addition to our test and measurement subject matter expertise, one of Transcat's strengths is our superior inventory position. As we move through this economic cycle, we are committed to maintaining our high customer service level.

We are making solid progress in developing our presence and reputation in the wind energy industry. We gained entry into this market as a direct result of our acquisition of Westcon last year and had begun to successfully leverage Transcat's strength to a point where wind energy product sales accounted for nearly 11% of product sales this quarter or $1.2 million. The development of products and services to this industry has mitigated somewhat the economic impact on our product segment sales, as well as strengthened the position of our company for when the economy rebounds.

Our calibration services business segment was also impacted by the downturn in the economy as customers responded to their own business challenges, with many reducing or deferring instrumentation calibration. Our focus is on taking market share in this highly fragmented market. We believe many companies in our targeted industries recognize the inherent benefits of vendor consolidation and that our breadth and depth, both in our geographic footprint and laboratory capability, are strategically in line with those needs.

Now I would like to turn the call over to John Zimmer, our CFO, for a discussion of our financial results. Then I will return for some final comments.

**John Zimmer:** Thank you, Charlie. As Charlie mentioned, the economy had a negative impact on our ability to grow revenue during the quarter. We think this impact was greater in the product segment than in the service segment, but both segments were impacted. As a result, our net revenue for the first quarter of fiscal 2010 fell 3.6% when compared with the first quarter of fiscal 2009. Gross profit and margin were also lower, primarily due to reduced volume, increased discounting and reduced vendor rebates in the product segment.

Our selling, marketing and warehouse expenses were relatively flat at $2.6 million, and administrative expenses were down 9.2%, when compared with the first quarter of fiscal 2009. The reduction in administrative expenses was due to lower performance-based management compensation and the suspension of the company match on our 401k plan, along with other cost-control measures.

We had an operating loss of $116,000 for the quarter as a result of the reduced gross profit, which was not entirely offset by the reductions in administrative expenses. This is compared with operating income of $388,000 for the first quarter of fiscal 2009. Similarly, we had a net loss for the quarter of $89,000, or $0.01 per diluted share, compared with net income of $228,000, or $0.03 per diluted share, in last year's first quarter. Weighted average shares were higher this quarter by about 200,000 shares, primarily due to shares issued as part of our Westcon acquisition.

At the segment level, our service segment revenue increased by 7.2% to $5.9 million for the quarter. While the economy had a negative impact on revenue from existing customers, we were able to offset that with incremental revenue from the Westcon acquisition and growth from new customer revenue.

Our service segment gross profit was slightly higher when compared with the first quarter of fiscal 2009, and our gross margin was slightly lower. Ordinarily, we would expect to see an expansion of our gross margin with revenue growth; however, in this quarter a large portion of our growth came from the acquired revenue from Westcon. This revenue came with the associated costs of an additional laboratory in Portland, Oregon. Therefore, we didn't see the expansion of our margins. When our growth comes from organic revenue, we typically expect to see incremental margins on that growth of 50% to 60% as we spread the fixed costs in our laboratory operations over a higher volume, thus reducing our unit cost. The impact of this operating leverage is obvious, each year in our fiscal fourth quarter, as our service segment gross margin expands due to the increased revenue in what is our seasonally strongest quarter for calibration services.

We had a $148,000 reduction in our service segment operating loss for the quarter, compared with the first quarter of fiscal 2009. This improvement is significant as it represents a 26% decline in the operating loss for this segment. The reduced operating loss was the result of slightly higher gross profit and our operating-cost controls which primarily impacted the service segment.

From a product segment standpoint, our first quarter sales declined 8.5% to $11.3 million when compared with the prior year's first quarter. We actually had a net increase in the number of customers, but that was more than offset by a decline in sales per customer, which led to the overall decline in product sales. In addition to the volume decline, we had increased economy-driven discounting, which reduced both product sales and gross margin for this segment.

We had very strong product sales to the wind energy industry during the quarter, which accounted for almost 11% of total product sales and offset some of the negative effect of the economy. Product sales over our website during the quarter were relatively flat, with the prior year first quarter at $900,000. Given the significant impact of the economic downturn on our customer base, we feel that remaining steady in our web sales is a solid positive sign of our growing success in this arena.

Product segment gross profit was $2.6 million, or 23.5% of net sales, in the first quarter of fiscal 2010, compared with $3.4 million, or 27.3% of net sales, in the prior year first quarter. The reduced gross profit was driven by reduced volume, increased discounting and lower vendor point-of-sale rebates. Vendor point-of-sale rebates are based on year-over-year growth and product sales. Since our product sales declined, we didn't qualify for this type of rebate in the first quarter of fiscal 2010. In the first quarter of fiscal 2009, point-of-sale rebates totaled $129,000.

Due to the reduction in gross profit, our product segment operating income declined by $650,000 to $300,000 for the quarter. From a geographic perspective, product sales to Canada and other countries were down by a greater percentage than sales in the U.S. because our sales in the U.S. included the strong growth in the wind energy industry, which muted some of the negative impact of the economy.

Cash flow from operations during the first quarter of fiscal 2010 was $1.5 million, compared with $400,000 for the prior year first quarter. This cash flow was driven by reductions in accounts receivable and inventory. Also, when compared with the prior year, we had much lower management bonus and profit sharing payments this year. Our strong operating cash flow allowed us to repay $1.3 million of long-term debt, bringing the balance of long-term debt down to $2.2 million at June 27, 2009. Our days sales outstanding were 39 days at the end of the first quarter, compared with 37 days at the end of the prior year's first quarter.

We have not seen a significant deterioration of our receivables, but we are closely monitoring the impact of the economy on our customers.

Capital expenditures were $300,000 for the quarter and were primarily for replacement equipment and the expansion of laboratory capabilities, including the expansion of our San Juan, Puerto Rico, laboratory, to expand its calibration disciplines to include mass capability, which we previously had to ship to the U.S. for calibration.

That concludes my remarks. Charlie, I will pass it back to you.

**Charles Hadeed:** Thank you, John. Looking ahead, we expect economic challenges to persist for the next two quarters and start to improve by the fourth quarter of fiscal 2010. We further expect some of the economic impact to be softened by our emerging sales within the wind energy industry. As a result, we believe our full-year revenue will be up modestly over fiscal 2009.

While we have had and continue to presume ongoing pressure on our product margins, we expect to realize the operating leverage John discussed from non-acquisition calibration revenue growth. This, combined with our strong well-managed balance sheet and prudent operating expense decision making, should yield modestly improved operating and net earnings for the full year.

Our longer range view of our business continues to be a low to mid single-digit growth rate in our products segment and a low double-digit growth rate in our services segment. We believe our wind energy presence can ultimately augment our long-range product segment growth rate. We will continue to pursue strategic acquisitions in our calibration services segment that will only serve to increase our service segment growth rate.

Focal to our decision-making process is our strategic plan, and critical to the execution of that plan are our employees. With the challenges to our business, we've made certain employee-related decisions such as suspending our 401k match. However, concurrently, we've made substantial investments in our sales team and calibration technicians, which comprise a large portion of our workforce. For example today, 41% of our eligible calibration employees are now Certified Calibration Technicians. The CCT is an exam-based technical competency administered by the American Society for Quality, or ASQ, for those familiar with the organization. To that end, I believe that it's critical to take a longer term view of how to position our company and have made decisions accordingly.

Thank you, and, Operator, you may now open the line for questions.

**Operator:** Thank you. Gentlemen, it appears we have no questions. Do you have any closing comments?

**Charles Hadeed:** Yes. I'd like to thank you all for joining us today in our first quarter fiscal 2010 earnings teleconference call, and I appreciate your time and interest in Transcat. Have a nice day. Thank you.