Operator: Greetings. Welcome to the Transcat Fourth Quarter and Full Fiscal Year 2015 Financial Results. 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 from your telephone keypad. As a reminder, this conference is being recorded.

I'd now like to turn the conference over to Deborah Pawlowski, Investor Relations for Transcat. Thank you Ms. Pawlowski, you may begin.

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

You should have the news release that crossed the wires after the market yesterday, and it can be found on our website at www.transcat.com. Also on the website are the slides to go with today's discussion.

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 in 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. So please review our forward-looking statements in conjunction with these precautionary factors.

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

Lee Rudow: Thank you, Deb. Good morning everyone. Thank you for joining us. If you're looking at the slides, I'll generally be talking about Slides 3 and 4.

Let me get started. As we reflect upon fiscal 2015, we continue to be excited about the progress we're making with our growth strategy. Our Service segment turned in strong performance, as you all know, and drove our record results for both the quarter and the year. We've been talking a lot about the inherent leverage in the Service segment, and I think our fiscal 2015 results validate that we're making progress along those lines. Yesterday, we reported a 55% Service operating income increase on 7.4% revenue growth. That's the leverage we believe the Service business can produce.

Looking at Distribution, we generated modest top line growth for the quarter and for the year. The key is that we continue to work hard. We need to expand our product business in a smart way; a way that drives differentiation, especially in the e-commerce world.

We all know, and we've discussed this in the past, that we faced headwinds throughout the year in terms of mostly reduced vendor rebates. That is now behind us. As we enter fiscal 2016, we will not have that challenge. The Distribution business continues to generate nice cash flows and we continue to leverage that segment to foster the growth on our Service segment. Our balance sheet remains strong, our new business pipeline and acquisition pipelines are strong, and we're entering fiscal 2016 with good momentum.

With that as a backdrop, let me walk you through some of the recent technology investments and important initiatives that drove our performance in fiscal 2015 and will continue to gain traction as we enter fiscal 2016.

We launched our new C3 Metrology Management Software that offers better asset tracking, cost control and overall compliance management than anything we've had in the past. The early adoption rates for the software have been very high, which translates into more customer intimacy and more customer attention, which are two very important goals for the Service business.

We also rolled out our new web platform. The new technology gives us the ability to better compete in a digital world. We can add more products, more stock calibrations, more kitting, support our new service rental business, and we can generate more service leads, all with better search engine optimization. All these differentiators are important. The new website and new technology gives us that opportunity. It also helps us offset Distribution margin pressure as the market dynamics change, at the same time will help us deliver and drive growth in the Service segment.

In the latter part of fiscal 2015, we moved into our newly expanded LA facility. The new lab is state-of-the-art and expands our presence in the heart of Southern California healthcare and life science cluster. Generally, we are referring to LA, Anaheim, all of Orange County, and San Diego.

In fiscal 2015 we completed two acquisitions. The Ulrich Metrology acquisition out of Montreal continues to perform very well, and has met most, if not all, of our expectations. In particular, we picked up very strong management and we're very well positioned going into 2016 in terms of our future growth and earnings in Canada. We like where we are with the Ulrich acquisition.

In Q4 of this past year, we acquired Apex Metrology Solutions, located in Fort Wayne, Indiana. This acquisition is another good fit for Transcat. This is a small organization, but they have a quality culture. It positions us well, because in the latter part of Q4 we picked up a significant amount of new business in the region. On several fronts, the timing and the geography associated with the Apex deal is a positive for us.

Also in fiscal 2015, we increased our credit facility to $30 million which will support a strong acquisition pipeline as we enter the new fiscal year. I'm going to add also at this point that I think it's important to recognize that we're going to continue to invest in our Service business, and in 2016, we're going to look to drive more efficiency into our operation with lean processes and increased capabilities.

The takeaways, if I were to summarize them for fiscal 2015: Service operating income increased 55%. We drove significant operating leverage on the higher Service volume resulting in margin expansion as we faced down the headwinds from Distribution. With the investments made in fiscal 2015, both segments of our business are prepared to compete in the digital world. Most importantly, we have momentum going into fiscal 2016, with a strong new business pipeline and a strong acquisition pipeline.

One more fact before I turn it over to John--which is both interesting and important. In fiscal 2015, our Service segment represented 45% of our total revenue, and as I noted in the press release, for the first time, surpassed our Distribution segment in terms of total annual operating income, an important milestone for Transcat. So net-net, the strategic plan is being executed well, and we're producing our desired results. I think that this will continue throughout 2016. We also believe that Service will also continue to be the primary driver of the growth for Transcat.

With that, I'll let John walk you through some of the numbers.

John Zimmer: Thank you, Lee, and good morning, everyone. Looking at Slide 5, as Lee mentioned, we achieved record revenue of $32.3 million in the fourth quarter, driven by growth in both segments of our business. For the full year period, total revenue increased 4.3% to a record $123.6 million.

Looking at the Service segment specifically, we achieved a record $14.5 million in revenue for the quarter. This represents a 7.5% increase and is comprised of both organic and acquisition-related growth. The fourth quarter also marked our 24th consecutive quarter of year-over-year revenue growth in our Service segment.

For the full fiscal year, Service segment revenue also increased 7.5% to $51.8 million, a new record. Distribution segment revenue was up $900,000 or 5.5% to nearly $18 million in the quarter, due to strong growth from alternative energy customers, which contributed the majority of the increase. Looking at the full year, Distribution sales increased about 2% to $71.8 million.

Moving on to Slide 6, as we have seen in previous quarters, our Service segment once again delivered strong gross profit and operating margins. For the fourth quarter, gross margin for the segment improved 180 basis points to 33.2%, while operating margin expanded 400 basis points to 15.2%.

For the full year, Service segment gross profit improved 60 basis points to 27.2%, while operating margin was up 220 basis points to 7.1%.

Distribution gross profit for the quarter was $3.7 million, down $700,000. The segment gross margin contracted 520 basis points to 20.7%. Lower year-over-year vendor rebates accounted for 220 basis points of the decline. As a reminder, vendor rebates tend to fluctuate as target levels are typically established by some vendors using growth rates based on prior year results. We do not expect vendor rebates to negatively impact fiscal 2016. Competitive pricing strategies utilized to maintain and grow our market share as well as changes in product mix also negatively impacted segment gross margin.

Our full year Distribution gross and operating margins also saw some contraction, due to the same factors as the quarter.

On a consolidated basis, total fourth quarter operating expenses were down $300,000 to $5.4 million, which reflects lower performance-based compensation expense. As a result, operating income in the quarter was up 6.3% to $3.1 million or 9.6% of total revenue. For the full fiscal year, operating income was up slightly to $6.8 million.

We will now move on to Slides 7 and 8, where we look at both 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 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.

On Slide 7, for the quarter, consolidated contribution margin was $5.1 million compared with $5.3 million in the prior year period. For the Service and Distribution segments, contribution margin was $3.2 million and $1.9 million respectively, or 22% and 11% of revenue for each segment respectively.

On Slide 8, consolidated fourth quarter Adjusted EBITDA increased about 7% to nearly $4 million, which reflects strong Service segment growth of $800,000, or 40% over the prior year period. For the full year, consolidated Adjusted EBITDA was $10.3 million, representing a 2.1% increase over fiscal 2014.

On a full year basis, Service segment Adjusted EBITDA increased 33% to $6.1 million, and since fiscal 2011, that segment has achieved a 36.5% compound annual growth rate.

On to Slide 9, our fourth quarter net income increased 12% to $1.9 million or $0.27 per diluted share, compared with $1.7 million or $0.24 per diluted share. For the full fiscal year, we achieved net income of $4 million or $0.57 per diluted share, an increase of 1.1% over fiscal 2014. Our net income compound annual growth rate since fiscal 2011 is nearly 10%.

Slide 10 provides detail regarding the strength of our balance sheet. As of the end of fiscal 2015, we had $16 million in availability under our credit facility. Our full fiscal year cap ex was $3.5 million, up from $2 million in 2014 and was primarily focused on expanding Service segment capabilities and strategic information technology upgrades, including the Company's new website and the C3 Metrology Management Software.

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. We are also continuing to add assets for our growing rental business.

We believe that our balance sheet structure offers the financial flexibility to facilitate our acquisition strategy, satisfy working capital requirements and capital expenditure needs. Slide 11 is an illustration of key investments and the impact to debt on a trailing 12-month basis, which demonstrates that we are generating cash to fund day-to-day operations, and continue to make the investments necessary to fund future growth.

With that, I will turn it back to Lee to discuss our outlook for fiscal 2016.

Lee Rudow: Thanks, John. Let me conclude by saying that we're optimistic toward the opportunities that lie ahead as we enter fiscal 2016. We expect our recent investments to continue to drive growth. We expect to incrementally benefit from our recent acquisitions. Timing will continue to be a factor, as it always is. There will be quarter-to-quarter fluctuations, but we continue to expect double-digit Service growth, and we also believe we will achieve consolidated operating income growth in the mid-teens in fiscal 2016.

With that, we can turn it over to the Operator for questions.

Operator: Thank you. We'll now be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad, and a confirmation tone will indicate that your line is in the question queue. You may press star, two if you'd 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. One moment, please, while we poll for questions.

Once again, if you'd like to ask a question, you may press star, one at this time.

Thank you. Our first question comes from the line of Steven Stern with Stern Investment Advisory. Please go ahead with your question.

Steven Stern: Thank you, and congratulations on an excellent quarter and excellent year.

Lee Rudow: Thank you.

John Zimmer: Thank you, Steve.

Steven Stern: My questions are two questions straight from the statements. On the cash flow statement, you have effective exchange rate changes jumping to $1.3 million positive from the previous year of $300,000. What does this tell us? What was the cause of it? Was it a proactive hedging program that created that?

John Zimmer: Steve, that's primarily related to our Canadian operations. We have transactions in Canada that are denominated in Canadian dollars, and because of the decline in the Canadian dollar over the course of fiscal 2015, those transactions are worth less in US dollars, and so we have reflected that on our cash flow statement.

We have a hedging program that's in place that manages our risk from a balance sheet standpoint, so that as the decline in our balance sheet accounts in Canadian dollars occurs, we have contracts that we've entered into which offset the value of that decline on a dollar-for-dollar basis. The primary impact of the exchange rate on our operations really is just the impact on our net income from one period to another, and this line item on the cash flow statement is the add-back for those contracts.

Steven Stern: Okay, good. So we are hedged on the Canadian operations?

John Zimmer: That's correct, yes. Our balance sheet is hedged. Typically what would happen is if a Canadian customer wants to pay us on our receivables, we'd bring that cash down and utilize it for corporate purposes, like paying off our debt or whatever. As the Canadian dollar gets weaker, those dollars that come down are going to be less, and so you would recognize a loss. What we do is we enter into a hedging contract, so we buy forward the US dollars that would satisfy that obligation, so that as the exchange rate for Canada gets weaker, we make more money on the hedge, and it just directly offsets it.

Steven Stern: Excellent. Okay, thank you. The second question is, on the statement of income, for the quarter, the income before taxes is up very nicely; 7.3%. Taxes and cost of sales are up only a fraction of a percent. Is that by design, is that by strategies our tax accountants are using, or is that just a timing differential that changes quarter-to-quarter?

John Zimmer: The effective tax rate is a combination of a variety of different factors. One of the factors that we have, is that because we are operating in Canada and expanding our operations there, especially through the Ulrich acquisition, we have more Canadian income, and Canada's income comes in at a lower corporate tax rate. So there is some impact of that on a year-over-year basis in the fourth quarter.

John Zimmer: Our effective tax rate is around 37.5%, and I think that's going to be pretty consistent going forward into 2016 as there's some potential improvement as Canada becomes more profitable as a percentage, but that all depends on the relative growth of Canada versus the rest of the business and the two different business segments, but I think 37.5% is a good rate to use.

Steven Stern: Something we can use. Okay, very good. Thank you.

Operator: Thank you. At this time, I will turn the call back to Management for closing or additional remarks.

Lee Rudow: Okay, well, this is Lee. Thank you all for participating. We appreciate your continued interest and support in Transcat. Thanks again.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.