Energy Recovery, Inc. (Q4 2018 Earnings)

March 7, 2019

Corporate Speakers:

- James Siccardi, Energy Recovery, Inc., VP of IR
- Joshua Ballard, Energy Recovery, Inc., CFO
- Chris M. Gannon, Energy Recovery, Inc., President, CEO & Director

Participants:

- Thomas Patrick Curran, B. Riley FBR, Inc., Analyst
- Joseph Amil Osha, JMP Securities LLC, Analyst
- Michael William Urban, Seaport Global Securities LLC, Analyst

PRESENTATION

Operator: Ladies and gentlemen, greetings, and welcome to the Energy Recovery Fourth Quarter Full Year Earnings Call.

(Operator Instructions)

As a reminder, this program is being recorded.

It is now my pleasure to introduce your host, James Siccardi, Vice President of Investor Relations. Thank you. You may begin.

James Siccardi: Good afternoon, everyone, and welcome to Energy Recovery's Full Year 2018 Earnings Conference Call. My name is Jim Siccardi, Vice President of Investor Relations with Energy Recovery, and I'm here today with our President and Chief Executive Officer, Mr. Chris Gannon; and our Chief Financial Officer, Mr. Joshua Ballard.

During today's call, we may make projections and other forward-looking statements under the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995 regarding future events or the future financial performance of the Company. These statements may discuss our business, economic and market outlook, the Company's ability to achieve the milestones and commercialization under the VorTeq licensing agreement, growth expectations, new products and their performance, cost structure and business strategy.

Forward-looking statements are based on information currently available to us and on management's beliefs, assumptions, estimates or projections. Forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors. We refer you to documents the Company files from time to time with the SEC; specifically the Company's Form 10-K and Form 10-Q. These documents identify important factors that could cause actual results to differ materially from those contained in our projections or forward-looking statements.

All statements made during this call are made only as of today, March 7, 2019, and the Company expressly disclaims any intent or obligation to update any forward-looking statements made during this call to reflect subsequent events or circumstances, unless otherwise required by law. In addition, we may make some references to non-GAAP financial measures during this call. You will find supplemental data in the Company's earnings press release, which was released to news wires and furnished to the SEC earlier today. The press release includes reconciliations of the non-GAAP measures to the comparable GAAP results.

At this point, I would like to turn the call over to our Chief Financial Officer, Joshua Ballard. Josh, the floor is yours.

Joshua Ballard: Good afternoon, everyone, and thank you for joining us today. When I joined Energy Recovery last August, I was excited by the opportunities that the Company presented: first, its strong global Water business offering multiple sustainable growth paths; and second, the potential of its pressure exchanger technology in oil and gas as well as other industries. My excitement has only grown as I've gotten to know the strength of our team and core technologies. I believe 2019 will be an exciting, transformational year for Energy Recovery.

Turning to our 2018 financial performance. We have closed a record year at Energy Recovery. For fiscal year 2018, we generated $74.5 million in total revenue, an 8% increase over 2017, our previous performance high watermark. Our Water business achieved $60.5 million in revenue, an increase of 11% over 2017. This strong growth has been driven largely by mega-projects, those generating over 50,000 cubic meters of water or more per day. We are very pleased with the upward trend in our core Water business and expect additional strong growth in 2019 and 2020. The overall seawater reverse osmosis desalination industry remains robust throughout the Middle East, Africa and Asia.

Our Oil & Gas business generated total revenue of $14 million for fiscal year 2018. Of the total Oil & Gas revenue, $13.5 million was related to ASC 606 recognition of VorTeq license revenue. The remaining revenue was associated with cost to total cost revenue recognition related to the sale of multiple IsoBoost systems.

Product gross margin remained strong, ending the year at 71%. This is the highest product gross margin in the Company's history driven by the shipment of a record number of PX Pressure Exchangers in 2018.

Overall operating expenditures grew from $40.8 million in 2017 to $46.7 million in 2018, a 14% increase. Over 60% of this increased spend was focused on expanding our research and development activities as we invested in our oil and gas field operations group and an additional testing of our VorTeq system. Research and development spend has grown an average of 30% over the past 3 years, reflecting the nature of our engineering technology-driven business. We expect similar increases in operating spend in 2019. More than 2/3 of our OpEx growth this year is focused on research and development for both water and oil and gas initiatives. The remaining spend will be on the people, systems and infrastructure to support expected growth in our Water and Oil & Gas divisions.

We generated operating income of $10 million for 2018, an 8% increase over; 2017, and net income of $22.1 million or $0.40 per diluted share, $0.20 when adjusted for a onetime tax benefit related to the simplification of our international tax structure early in 2018.

Our capital expenditures were $5.2 million in 2018. The majority of this spend was related to the purchase of high pressure hydraulic fracturing equipment to advance the testing of our oil and gas solutions. We expect our capital expenditures to increase considerably in 2019 as we build our Texas-based commercial development center and as we expand our water manufacturing operations to meet anticipated demand.

In addition, we intend to put in place new systems and capabilities to strengthen the foundations of our business in preparation for Water division growth and the commercialization of our VorTeq system.

Despite these infrastructure investments, our cash flow and balance sheet remained strong. Operating cash flow for fiscal year 2018 was $7.6 million, 160% higher than in 2017, and we ended the year with $96.7 million in cash and securities with no debt. Overall for the year, we experienced a net reduction in cash and securities of $3.9 million, a result of the $10 million share repurchase program that occurred in the first half of 2018. I am pleased that we have maintained a balance sheet that gives us full flexibility to invest in growing our business.

And with that, I will hand it over to our President and CEO, Chris Gannon.

Chris M. Gannon: Thank you, Josh, and thank you, everyone, for joining us today. Let me first begin by reiterating a couple of our key near-term strategic objectives. First, we are focused on growth and reinvestment in our core Water business. Second, we are concentrating the efforts of our Oil & Gas business on commercializing the VorTeq system. Throughout this call, I will provide updates on our progress around these 2 objectives.

A year ago, I pledged to our shareholders a tireless work ethic, full transparency and a single-minded dedication to the success of Energy Recovery. At that time, I had just taken over as CEO, and my assessment then that it was an exciting time for Energy Recovery is even more true today. I see a level of momentum within our Water and Oil & Gas businesses that is unprecedented.

Over the past year, I have spoken often of our near need to invest in infrastructure to enhance our near-term execution as well as support rapid, sustainable and transformational growth. While the Company may have had solid business fundamentals at the beginning of 2018, it was clear to me that a stronger foundation for near and long-term success needed to be built. As such, over the past year, we have made substantial progress in this regard across all areas of Energy Recovery.

For instance, we separated the Company to 2 business units to ensure appropriate focus and resource allocation. In Water, we began investing in the improvement of our existing product lines, the expansion of our water product and solution offerings, the increase of our manufacturing capacity and the improvement of processes throughout our operations. These investments should support our efforts to maintain our commanding market share in seawater reverse osmosis desalination and grow our presence within the broader desalination market.

On the Oil & Gas side, we made substantial progress in advancing the system level of enhancements of our VorTeq technology. In addition, we made significant infrastructure investments to formalize our Oil & Gas business, including dramatically increasing our full-scale, field-testing capabilities and growing our in-house field operations expertise. In addition, we continue to build our research and development organization. These investments should place us in the best top position to further accelerate and ultimately commercialize the VorTeq.

Now turning to a more detailed discussion of our core Water business, which remains the lifeblood of Energy Recovery. In 2018, we achieved our fourth consecutive year of top line revenue growth with $60.5 million in revenue, more than 11% increase over 2017. In addition, we achieved a record 71% gross margin for the year, which continued to -- continues to underscore the value proposition of our leading PX Pressure Exchanger and other desalination technologies. Further, we successfully won every major mega-project on which we bid. We have often referred to the cyclical nature of the desalination industry with it being on a 4- to 6-year cycle. However, we are in the fifth consecutive year in up-cycle, and project activity continues to expand with little signs of slowing. In fact, today, we have the most significant backlog and the most robust pipeline in the Company's history with activity and awards spanning 2019 and 2020.

Importantly, the global need for potable water is undeniable. The effect of climate change, population growth and the rise of industrialization have played a major role in driving water scarcity and have had a substantial impact on water demand. Today, desalination is the most effective man-made solution to produce large quantities of potable water, and much of that water is being produced by a seawater reverse osmosis desalination, or SWRO. In fact, today, water produced by SWRO costs significantly less than it did in the 1990s when the industry was relying on other non-now-outdated technologies such as thermal desalination. This decrease in cost has been one of the primary factors for the acceptance, growth and success of desalination as a cost-effective solution for the world's water needs.

We are proud of the role our PX Pressure Exchanger technology has played in this global transformation. Desalination provides approximately 1% of potable water needs globally.

Let me repeat, approximately 1%.However, if you look at countries like Israel and Saudi Arabia, which have been at the forefront of desalination revolutions, this number is significantly higher. According to the Times of Israel, 55% of the country's water needs and 70% of its drinking water comes from desalination. Saudi Arabia's Foreign Affairs magazine reported that desalination currently supplies 70% of the country's urban water supplies. I believe we will continue to see growth in SWRO as more of the world follows the lead set by countries like Israel and Saudi Arabia.

Positive industry trends, our growing backlog and pipeline and still confidence in the strength of our Water business unit and our belief that the Company's revenues will grow between 5% and 8% in 2019 and 2020 with our existing product offering. As such, we are proactively investing in our water operations to materially increase manufacturing capacity in 2019, all in order to support the increasing level of activity we see this year and beyond. This includes purchasing new machinery and technologies for manufacturing as well as increasing headcount, so we can sustain top line growth.

As I have mentioned in the past, the Water business for us is about more than just simply maintaining the status quo. Our Water team is focusing on identifying new opportunities for growth and expansion, and we have made great progress on that front since our last earnings call. We are aggressively pursuing these opportunities through organic and inorganic means. As these initiatives continue to evolve, we will update you accordingly.

While, except for existing partnerships, we do not expect material new revenue from these endeavors in 2019, we do expect to set the stage for significant growth as we head into 2020 and beyond. The growth we anticipate in Water during 2019 and 2020 is not dependent upon any of the water growth initiatives that are currently being pursued. Our core Water business alone is exhibiting incredible strength, enabling us to view the next 2 years with great optimism. By executing on any of our water growth initiatives, our already robust outlook could prove even brighter. In short, I am thrilled with the performance and outlook of our Water business and anticipate our investment will lay the foundation for even stronger future growth.

Now turning to Oil & Gas. 2018 was a tremendous year for this business. We made substantial progress building the necessary infrastructure to advance our VorTeq technology in pursuit of the ultimate goal: successful commercialization. We have taken firm control of our research and development process by acquiring the field resources, equipment and facilities we need to further advance and ultimately commercialize the VorTeq system. Furthermore, we have made tremendous progress on the system, specifically on the design enhancements agreed upon with our product licensee last summer.

It was apparent when I took over last year that we had a limited ability to test the VorTeq system at scale within conditions representable live well. We were overly reliant on our product licensee and product partner for resources, including fact, personnel and high-pressure equipment, to conduct required tests. But status quo was not acceptable. And as such, we made a significant investment to acquire the in-house resources necessary.

Today, we are no longer solely reliant on our product licensee or product partner to field-test in advance the VorTeq system. These were large but critical investments that should allow us to accelerate the pace of commercialization. We will continue to invest in our internal capabilities in 2019, adding new field personnel to maximize our ability to independently test at our new commercial development center outside of Houston, Texas. The personnel and expertise required will be critical to our success as we advance toward commercialization and beyond when we deploy our technology in a production environment. By taking ownership of the research and development process, we have already accelerated development of the system-level enhancements agreed upon with our product licensee following the technical review in 2018. These design enhancements are specifically focused on system, durability and reliability. As a reminder, Energy Recovery and our product licensee agreed to develop and implement these system-level enhancements ahead of milestone 1 to shorten the overall path to commercialization.

It's important to remember that we are designing, manufacturing and deploying newly invented technologies. Following our purchase of high pressure hydraulic fracturing equipment at the end of 2018, we moved into a new phase of regular field testing. We must be able to repeatedly test the system at scale to address technical and operational challenges, which is what we are doing now. This repeated testing is critical to deliver a resilient system that can ensure the harsh environment of hydraulic fracturing.

In prior years, the issues we were dealing with were complex and related to the viability of the core VorTeq technology. Today, as we test more frequently in field conditions, the issues we are encountering are less complex in nature but still must be addressed prior to milestone 1 in commercialization. We have made tremendous progress on VorTeq throughout 2018 and through early 2019. I will share more about our progress during our first earnings call in 8 weeks.

I want you to note that we have every intention of advancing the technology to attempt milestone 1 in 2018 as we move towards commercialization. I'm happy to report that construction is underway at the new commercial development center. We began land stabilization work in January 2019, which is a prerequisite to using the yard for testing. I want to be clear as to why this center is crucial piece of our infrastructure. First, the center provides a permanent home to test any of our oil and gas pressure exchanger applications. Tactical and operational development will not end at the success of a completion of a test or even when we successfully commercialize. As with any technology, we will continue to refine and optimize the VorTeq system post commercialization.

Second, the center has been designed to provide support capabilities, capacity required as we ramp up in production environment. Specifically, we will have the ability to handle the final machining required in our proprietary high-precision tungsten carbide manufacturing process. We'll be able to fully control quality as well as to maintain, repair and store pressure exchanger cartridges and equipment.

Third, the center consolidates our Oil & Gas operations in Texas at the center of the U.S. oil and gas industry. The proximity to Houston reduces travel costs and relieves stress in our field and engineering teams, thereby improving productivity. Furthermore, the proximity to our product licensee will allow us to collaborate more closely as we move into this next phase of product development and progress further towards commercialization. We view the investment in the commercial development center as a critical step in the maturation of Energy Recovery's Oil & Gas business unit, and you should see this as a strong signal of our commitment to and belief in the VorTeq technology.

In closing, 2018 was a tremendous year for Energy Recovery. We experienced record top line revenue growth and profitability within our core Water business. Our strong existing backlog and pipeline as well as positive market trends and still confidence, we will experience further growth in 2019 and 2020. We're also aggressively pursuing growth in new product and solution offerings, which could further drive Water business growth.

Furthermore, we made great strides in advancing the VorTeq technology over the past year. We invested heavily in our own testing and field operations infrastructure and plan to continue our investment in infrastructure during 2019 as we move to the next phase of VorTeq development on the path to product commercialization.

As I said at the outset, I've never been more optimistic about the future of Energy Recovery. We've begun 2019 building on the tremendous momentum we experienced in 2018. We know there is much work left to do, and I firmly believe our business is in excellent position to achieve success in 2019 and beyond.

With that, I will turn the call over for questions.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions)

Our first question comes from the line of Tom Curran from FBR.

Thomas Patrick Curran: So product revenue ended up coming in for 2018 about 20% higher than what you used to think of as around your cyclical ceiling. The product gross margin at 74.5% was simply astounding. Chris, Josh, as you guys look into 2019, questions on both the top line and profitability. First, given this ongoing surge we've seen in MPDs, just how much visibility and coverage do you have already for 2019 revenue? And then what should we expect for the quarterly sequence from here for gross margin?

Joshua Ballard: Hey, Tom, this is Josh. So when we're looking forward in terms of our visibility, as you know, we see roughly 18 months out or we see 36 months out in terms of our mega-projects. And we start signing projects that give us a good feeling for about 18 months out, 12 to 18 months out, so we've got a relatively good feel for mega-projects this year. But OEM and our aftermarket have much shorter cycles, and so we see OEM maybe up to 12 months and aftermarket just a few months, if that's helpful. And in terms of our gross margin going forward, we feel that the gross margin going into 2019 is going to be fairly similar to what you saw in 2018.

Thomas Patrick Curran: And would that include a similar quarterly sequential progression in addition to comparable average annual?

Joshua Ballard: No. When we're looking at quarterly numbers, remember, there's a lot of movement that occurs with our mega-projects from quarter-to-quarter. So I don't think you should look for -- specifically quarter against quarter, more at the overall year.

Thomas Patrick Curran: Okay. And then, Chris, on VorTeq, just a few points of clarification, a 3-part but simple question.

So one, could you just confirm that by saying in the press release that you're collaborating closely with your partners, by partners, you mean both of the 2 licensees that had been involved contractually from the beginning, Schlumberger and Liberty? Two, when you refer to the next phase of commercialization, that the next phase does indeed include the successful completion of M1? And then, three, what are the remaining conditions that must be met for the M1 test to be resumed?

Chris M. Gannon: Yes. So to your first question on who we're working with, we are, in fact, working with our product licensee and our product partner very closely. So that was that one. In terms of the -- if I remember in order, the next phase of commercialization, what we're focusing on is field testing and regular field testing. So now that we have our own equipment, we are able to test at scale constantly. We now have the resources and the structure in place to independently advance the development of the VorTeq system. We didn't have that before. And then the third part?

Thomas Patrick Curran: Just what conditions would need to be met at this point via all that field testing? What's going to determine when you're ready to resume M1?

Chris M. Gannon: Yes. So we're focusing on the reliability of the system. And so the timing along the path of R&D is never certain, as you know. However, we feel the requirements and activities to successfully develop VorTeq are well within our grasp at this point. So I'm not going to give you a specific timing. Some of that's in our control; others, not. But the challenges that we face continues to diminish in complexity, again as we continue to accumulate run-time.

Operator: Our next question comes from the line of Joseph Osha from JMP Securities.

Joseph Amil Osha: So following up a little bit on the questions that were just asked, understanding that we can't get into too many details. Is it really down to, in terms of what you're trying to understand with VorTeq at this point, just reliability and run-time? Are there any other more fundamental issues around vibration or the way the material is acting or is it just getting run-time on the system at this point?

Chris M. Gannon: Yes. I mean, it's really down to the reliability of the system in real-world conditions, and that's where we're focused. We're past the -- again, the fundamental viability of the core technology. That, we know, works.

Joseph Amil Osha: Okay. And given how you kind of reposition this with internal test capability, I mean, is it possible that you might go out and engage additional parties or you're kind of happy working with the people that you have at this point?

Chris M. Gannon: Yes. It's really not something we're evaluating at this time. I mean, we have the internal capabilities to test, and of course then we can test with both our license partner and our product partner. We've already begun to experience tangible benefits given that we have our testing independence at this point, and it's really about accumulating run-time.

Joseph Amil Osha: That makes sense. And we had spoken at one point about the idea of maybe you all building another missile, so this one isn't getting just madly towed that's hindering you on. Is that still something that you're entertaining?

Chris M. Gannon: At this point, we are focused on the -- again, the reliability of the system. And as we experience changes, we -- or things that we need to improve, we will continue to adjust the existing missile. At the right, appropriate time, yes, we'll go and build another missile and hopefully many, many missiles. But right now, I'm not evaluating spending more CapEx specifically on another missile.

Joseph Amil Osha: Okay. And shifting gears to the Water business, obviously there was the Duchting announcement. And I'm wondering what, if anything, you might be contemplating in terms of additional additions to your skill set on that side.

Chris M. Gannon: Can you repeat that question?

Joseph Amil Osha: Just wondering if you're looking at maybe doing anything else like Duchting in terms of adding additional skill sets to your Water portfolio.

Chris M. Gannon: Yes, yes. Absolutely. Okay, so I apologize for that. We're looking at expanding our product offering very considerably, and we're doing that both on an organic and an inorganic means. And so not only are we focusing on just products. We're also focusing on solution offerings, and so that's where we're going. And so we're at the front end of that process. We spent a lot of time last year developing that strategy, and now we're in the process of executing upon that.

Joseph Amil Osha: All right. So we could see additional M&A or additional activities in that space as you continue to move forward?

Chris M. Gannon: Yes. So we're not, right now, focusing on M&A but more partnerships and getting to know potential partners like the Duchting, for example. So as we expand our product portfolio, that's what we're going to do first.

Joseph Amil Osha: Okay, great. And then last question for me. Just wondering if I can get a sense as to what the sort of operating cost run rate might look like in 2019, and I'm sorry if I missed that.

Joshua Ballard: No. Sure. No problem. This is Josh. You can expect operating income to grow -- I mean, I'm sorry, operating expenditures to grow at a similar pace as they did in 2018, and that's going to -- I would assume just a -- we saw about $11.5 million to $12 million in quarterly spend last year, and I'd expect that here in the nearly part of the year. And it will slowly ramp up through the year.

Joseph Amil Osha: Okay. But it will grow less rapidly than revenues, yes?

Joshua Ballard: Well, it will grow -- well, it grew 1/3 -- a little bit over -- about 14% last year, and so it's going to grow at that same amount, give or take, this year.

Operator: Our next question comes from the line of Mike Urban from Seaport Global.

Michael William Urban: So wanted to follow up on one of the last questions about some of the growth efforts in adjacent verticals there. So it doesn't sound like you're expecting much in the way of revenue contribution this year, maybe more of a 2020 and beyond. But can you give us a sense for when we could expect kind of commercialization or new products rollout or some of the first tangible signs of benefit from those efforts?

Chris M. Gannon: Yes. I mean, I -- where we see -- where we currently have the relationship with Duchting, which has shown some early great signs of later in the last part of 2018, we think that we'll continue to see growth with that partner as we enter 2019. In terms of new products that will be out there selling or bundling, if you will, it's really going to be in 2020 that I anticipate that.

Michael William Urban: Okay. Got you. And I apologize if I missed this. I think you said CapEx would be up considerably in '19, but I didn't -- I missed the number. Do you have a kind of a dollar amount you're looking at for this year?

Joshua Ballard: Yes. We're looking at about $10 million of spend this year.

Operator: (Operator Instructions)

Our next question comes from the line of Tom Curran from FBR.

Thomas Patrick Curran: Sticking with the same recent line of questioning on the strategic initiative to expand Water's TAM. Chris, could you expound on the specific offerings you're considering within 2 areas of desal plant construction? One would be insulation and fabrication; and then the other, equipment and materials. We -- I feel like we've talked a lot about the existing exposure you have in pumps and how you might be looking to expand there. But those 2 areas, they're pretty broad and vague-sounding. So maybe if you could just provide some more color on what specifically in each of them you might be interested in.

Chris M. Gannon: Yes. So we're -- great question, by the way, and where we're focused is on expanding from our pressure exchanger out in that area of the plant in terms of the overall -- that's the main desalination part of it, RO process. And so when we think about growth there, on the mega-projects, we're looking at getting a larger crack at pumps certainly and racks and manifolds and things of that nature in that area, and then we'll expand from there. On the OEM side of the business, which is where we certainly have greater competition, we are looking to not only improve our overall technologies but then expand our pump offerings there as well. If -- I think, historically, we've shown a pie chart in our IR material that talks about our total addressable market, and most specifically, where we play, namely in the pressure exchanger or the Energy Recovery area and then, to a lesser extent, pumps. So we're trying to get more exposure to the pump market in general, and then we'll expand from there.

Thomas Patrick Curran: Okay. And then beyond the award hotbed that is the Middle East, could you also expound upon the nature and the potential of the opportunities you're seeing in some of the other nascent ROD sub-growth markets like Chile, Australia and Asia outside of China such as Singapore? Where across those other less high profile gross markets have you started to see maybe signs of an acceleration or some interesting movement?

Chris M. Gannon: Yes. Certainly, you mentioned Chile; we're certainly seeing activity there. I think there's been some discussion in the news as of late that certain other areas down in Australia are starting to need desalination activity again. They went to a water surplus for a while there. It seemed like they built a whole bunch of plants, and then it immediately started to rain. Well, that issue was now come back to them and they're focused there. But right now, it's mostly Middle East, Africa, regions like that. We're also seeing a move in a lot of regions to converting thermal plants to desalinate or to SWRO facilities, and that's a big boom for us because there's a lot of those plants out there.

Operator: Our next question comes from the line of Joseph Osha from JMP Securities.

Joseph Amil Osha: To continue the previous question there for a little bit, so you may have just seen that this new Fortress energy deal came, and part of what was going on there is gas-fired power in smaller Caribbean markets like Puerto Rico and Jamaica and places like this. One of the issues that came up is power for desal. So I'm wondering what kind of potential you see in some of these much smaller form factor desal equipment, in some cases, like the container form factor stuff? Are you playing in that space? And what do you think of it?

Chris M. Gannon: Yes. We do play in the smaller plants, in the small containerized areas, so we sell into those, the actual companies that create those products.

Joseph Amil Osha: Can you imagine an environment where you might want to try and -- obviously, I think it's pretty clear you don't want to do membranes -- but given your reach, could you become some kind of system integrator or are you just happy selling parts into those companies?

Chris M. Gannon: Yes. I mean, we definitely want to begin to develop solutions, but we're not going to offer more to our end customers, including these containerized-type companies that are building those small RO systems. However, we're not interested in competing with them to do that.

Operator: Ladies and gentlemen, we have no further questions in queue at this time. I'd like to turn the floor back over to management for closing comments.

Chris M. Gannon: All right. Thank you for joining us this afternoon, and we appreciate your continued support of our Company. We look forward to providing an update on our next earnings call, and I guess it's 8 weeks. So thank you very much and have a great rest of your day.

Operator: Thank you. Ladies and gentlemen, this does conclude our teleconference for today. You may now disconnect your line at this time and log off your computer. Thank you for your participation and have a wonderful day.