

Operator: Greetings and welcome to the Transcat, Inc. First Quarter Fiscal Year 2019 Financial Results Conference Call. As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Craig Mychajluk. Thank you. 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 CFO, Michael Tschiderer. After formal remarks, we'll open up 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 website at transcat.com. The slides that accompany today's discussion are also on our 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 with 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. We undertake no obligation to publicly update or correct any of the forward-looking statements contained in this call, whether as a result of new information, future events or otherwise, except as required by law. Please review our forward-looking statements in conjunction with these precautionary factors.

I would like to point out as well that during today's call we will discuss certain 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 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, and good morning, everyone. Thank you for joining us on the call today. We'll follow the same format that we've used in the past. I'll hit upon some highlights for the quarter and then Mike will provide a more in-depth review of the financials, and I'll come back and wrap things up with an outlook for fiscal 2019.

We're pleased by the continued momentum and solid performance in the first quarter of fiscal 2019. The strength of our value proposition, the focused execution of our strategic plan and the inherent operating leverage in the Service segment drove double-digit operating income growth. In addition to the operating income growth, we drove gross margin expansion in both segments of the business.

Service gross margin expanded 40 basis points to 25.5%. Distribution gross margin expanded 140 basis points to 24.2%. Consolidated gross margin expanded 90 basis points to 24.9%. This all led to consolidated operating income growth of 44%, or \$2 million, in the quarter and an operating margin increase of 160 basis points. Even when normalizing first quarter operating income growth for the \$322,000 one-off, noncash, stock option grant in last fiscal year's first quarter, consolidated operating income was up 17%.

Net income was \$1.4 million, up 67%, and EPS grew 62% to \$0.19 per diluted share in the first quarter.

We generated strong cash from operations, and used cash to reduce debt and fund longer-term productivity enhancements and general operational excellence initiatives. Relative to these investments it's important to note that while we're encouraged by the early gains, heavier lifting is expected ahead of us, and we're full steam ahead on leveraging technology, people and process improvements to drive differentiation.

On the acquisition front, at the end of the quarter we completed the small tuck-in purchase of NBS Calibrations, Inc., located just a few miles from our laboratory in Phoenix, Arizona. NBS specializes in providing gas and liquid flowmeter calibration, a niche discipline we previously outsourced. We believe

the new capability strengthens our value proposition and will increase our competitive advantage as we drive organic service sales growth.

Moving on to Service where we continue to take market share. Our organic Service segment growth in the first quarter of fiscal 2019 was nearly 5% and represented a 37th consecutive quarter of year-over-year Service revenue growth. The growth was primarily fostered by our performance in the highly regulated life science space, along with growth in aerospace and the general and industrial market.

Even with moderate year-over-year organic Service revenue growth in the quarter, we demonstrated the inherent operating leverage in the Service segment with margin expansion of 70 basis points on operating income growth of nearly 21%. New service wins in the quarter were strong. And in combination with a solid pipeline of potential new service opportunity, we expect the new business to drive mid- to high- single-digit organic Service growth rates and to support solid results for fiscal 2019.

Moving on, Distribution continues to deliver on our stated goal of generating steady gross profit performance, differentiation, and a significant lead source for our Service segment and strong cash flow to support organic growth, acquisitions and operational excellence.

In the first quarter, the Distribution segment delivered on all fronts. We also benefited from a positive sales mix, including strong core end user sales, a 24% increase in rental revenue, and pricing enhancement initiatives that drove expansion in Distribution gross margin.

Also in the quarter, we completed the final stage in the full integration of Excalibur Engineering as we consolidated the facility in Irvine, California with our state-of-the-art lab in Los Angeles. That operation was down for a bit in the quarter as we executed the move, but we believe we're back to business as usual here in the second quarter. With that, I'll turn things over to Mike to discuss the first quarter results in more detail and then I'll come back to talk to the outlook.

Michael Tschiderer: Thanks, Lee, and good morning, everyone. I will start on slide 4 of the slide deck that we provided, where we give some detail regarding our revenue for the first quarter of our fiscal year 2019, which ends on March 30, 2019.

In the first quarter, we delivered consolidated revenue of \$36.7 million, up 1% over the first quarter of our fiscal 2018. This consolidated total includes our Service segment and Distribution segment revenue, our two reportable segments.

As Lee mentioned, we had Service segment organic revenue growth of approximately 5%, which was at the low end of our expected organic revenue growth rate of mid- to high single-digits. We still expect to achieve our organic revenue growth goals for the full fiscal year 2019.

Lee mentioned the purchase of NBS Calibrations. On June 28, we announced the purchase of certain assets of NBS effective on June 12, 2018. The revenue of NBS were negligible in our first quarter and do not change any of our organic growth numbers for this quarter.

We believe this will be the case in all future quarters, so we'll continue to call our Service revenue growth all organic if the revenue from NBS continue at their expected levels.

For our Distribution segment, revenue for the quarter decreased 2.6% to \$17.3 million. The decrease reflects lower sales of used equipment. Partially offsetting the used equipment sale softness were solid sales of our core products and increased revenue from the rental business. Rental revenue grew year-over-year by 24% to almost \$1 million for the quarter. Beyond differentiating us in the marketplace, rentals continue to provide an attractive margin profile, which helped the segment's gross margin and operating results as seen on the next slide number 5.

On slide 5, gross margin improvement and SG&A cost control drove operating income growth and margin expansion. On a consolidated basis in the first quarter, our operating income increased nearly 44%, or \$0.6 million, and operating margin expanded 160 basis points to 5.5%.

As we mentioned, last year's first quarter included a \$322,000 one-off, noncash, stock-based compensation expense item. But after normalizing for that item, we still saw strong leverage with consolidated operating income increasing 17%.

Distribution gross margin expanded 140 basis points to 24.2%, despite the lower sales. This was due to the mix of the products sold, inventory purchase rebates received and pricing initiatives that were implemented as part of our ongoing operational excellence program. That segment's operating income also increased, hitting \$1 million in the quarter with an operating margin of 5.5%, which was up 250 basis points. Controlling expenses, including lower commissions paid on the lower used equipment sales, contributed to those results.

The Service segment demonstrated operating leverage in the quarter with gross margin expanding 40 basis points and operating margin expanding 70 basis points. We benefited from some of the early operational excellence initiatives that drove productivity improvements.

Slide 6 shows net income on a trailing 12-month and quarterly basis. Net income for the year-over-year first quarter increased 67% to \$1.4 million, which equates to \$0.19 per diluted share, that's up \$0.07. The significant increase on both the trailing 12-month and quarterly basis reflects improved operating results as well as the positive impact from the U.S. Federal Tax Cuts and Jobs Act enacted in December of 2017. The effective tax rate this quarter was 20.7% compared with 24.8% in the first quarter of last fiscal year. Of note, our effective tax rate includes U.S. federal taxes, various state taxes and taxes on our Canadian operating entities' income.

Looking ahead, our income tax rate for full fiscal year 2019 is still expected to be in the range of 25% to 27%. This combined rate includes U.S. federal, state and Canadian taxes.

On slide 7, we show adjusted EBITDA and adjusted EBITDA margin. Among other measures, we use adjusted EBITDA, which is a non-GAAP measure, to gauge the performance of our segments because we believe it is a good measure of our operating performance, and is used by investors and others to evaluate and compare performance of core operations from period to period. I encourage you to look at the supplemental slides that provide a reconciliation of adjusted EBITDA to the closest GAAP measures, which for us are operating income and net income.

On a consolidated basis, quarterly adjusted EBITDA was up 14% to \$3.8 million, while adjusted EBITDA margin expanded 120 basis points to 10.5%. Both segments contributed to this increase.

Slide 8 provides detail regarding our balance sheet and cash flow. We generated strong cash from operations of \$3.1 million in the first quarter, which was used to fund our growth-focused investments, drive our operational excellence initiatives and further reduce our debt.

First quarter capital expenditures were \$1.9 million and primarily focused on customer-driven expansion of Service segment capabilities and acquiring assets for the rental business. Our anticipated capital expenditure plan for fiscal 2019 remains in the \$7 million to \$7.5 million range. And if you look on slide 9, we provide a breakout of the anticipated CapEx spend levels to the various focus areas of fiscal year 2019.

At quarter end, we had total debt of \$21.5 million with \$22 million available under our revolving credit facility. Our debt levels are down \$1.3 million since the end of fiscal 2018, and our quarter end leverage ratio also decreased to 1.28. We calculate this leverage ratio as our total debt on the balance sheet at a period end divided by the trailing 12 months adjusted EBITDA. Other companies may calculate such a metric differently.

Our \$50 million shelf registration statement filed in December 2017 remains effective, but unused at this date. We continue to believe we have sufficient liquidity and a strong balance sheet for investment purposes that meet our strategic criteria. And lastly, we expect to timely file our Form 10-Q on or about August 3.

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

Lee Rudow: Thank you, Mike. Turning to the last slide. We continue to build the business for the long-term and are encouraged by ongoing strength in the U.S. industrial market. The attributes of our Service segment remain very compelling. The segment is driven by regulation, in particular the highly regulated life science space. This segment is supported by recurring revenue stream. This segment maintains high margins and inherent operating leverage. In addition, the industry remains fragmented. It provides a real opportunity to execute our acquisition strategy. For all these reasons, our Service segment continues to be our primary growth engine, and our strategy is to drive double-digit growth through a blend of organic and acquired revenue streams. Technology, talent, and process improvement are fundamental elements to our competitive advantage, and we will continue to invest in all three areas.

To that point, we're pleased with our progress to the planning and early implementation stages of operational excellence. But there is a lot of work to be done and the meaningful drivers will become more impactful in the 12- to 24-month range, when our goal will be to drive higher gross margins and operating margins throughout the organization.

Our balance sheet remains strong as does our current pipeline of potential acquisition. Both are supportive of an increased level of acquisition activity in the future. All in all, I like our team, our strategy and our demonstrated track record of executing our plan. As we work our way through the second quarter, we're well positioned to capitalize on opportunities and to deliver a solid fiscal 2019. So with that, operator, we can open the line for questions.

Operator: Our first question comes from the line of Matt Koranda with Roth Capital Partners.

Matthew Koranda: Just wanted to start out with Service growth. I noticed no change to the outlook there, but could you give a little color on why growth may have been on the low end of your guidance, given that you're taking share and still seeing strong growth in the key core service markets that you serve?

Lee Rudow: Matt, this is Lee, and I'll address that. When you look at this business on a quarter-to-quarter basis, you're going to see some variability from time-to-time in the flow of revenue, and that does not concern us. As we mentioned in the press release, and even in our script, we had a very high level of new service wins in the quarter, and to some degree even in Q4 of the previous year. Sometimes these large opportunities and wins just take time to work their way through the initiation stage. We see the 5% in a vacuum and in and of itself, yes, that's on the low end, but when we look at it in the light of the new business that we booked in the first quarter, it's no concern of ours at this point. We think it's going to all flow through. Another couple of weeks and it might have corrected itself. We'll attribute it to timing and the natural fluctuations you can have from time-to-time and quarter-to-quarter.

Matthew Koranda: Okay. Makes sense. I think you guys did call out, and you mentioned it just now, the record level of bookings in the quarter. Could you give a little color on the mix of that new service business? And how it might play out for Service operating margin as we head through fiscal '19 here?

Lee Rudow: Sure. The mix of the new revenue that we referred to in terms of bookings, generally speaking, follows the same pattern as it has in the recent past. It's weighted towards life science. We've had a lot of success taking market share in that space, but we're also seeing an uptick in aerospace and some defense markets as well. Even the industrial markets provided some uptick for us. So it's really a blend, highlighted and concentrated with life science.

From a margin perspective, I'll just state, generally speaking, we've been pleased with the margins on the new business we're winning. Our goal is to increase our margins, and I don't see any of these new wins that have been counter to that goal.

Matthew Koranda: Okay. Got it. Then in terms of on-site versus the other work you do, is that some of the reason for the launch of that new business taking a bit more time here? Wanted to get your thoughts on that?

Lee Rudow: No, I wouldn't attribute it to the mix of on-site. I would just attribute it to the general nature. Some of these accounts we've won recently are a little bit larger than our typical profile, which is good news. There is nothing wrong with that, and they take a little bit longer sometimes, and some take longer

than you would expect. When we look at the profile and the wins, and we dig a little bit deeper, again, no cause for concern. We think it's going to play out well.

Matthew Koranda: Great. On Distribution, just wanted to clarify, when you say the Excalibur consolidation into Fullerton may have impacted sales, I think you're referring to used equipment. Was that the primary driver of softness in used equipment sales and distribution during the quarter?

Lee Rudow: In that particular case, we were shut down for a few days moving equipment and consolidating, which did have a small impact on our used equipment business. Of the shortfall in revenue that was probably 50% of it, and that will probably not come back, but we're back up to normal run rates now. The other shortfall we had was in lower margin, what we call rep reseller business. We do not concentrate on that by design because of the nature of the margins. In the quarter we focused on the higher-margin revenue streams; that core end user business, the rental business, and that's why our gross profit margin was up and the gross profit dollars were up. That is why we're really pleased with Distribution in that respect.

Matthew Koranda: Got it. That's helpful. Just one more on Distribution and the growth outlook that you guys provided in the deck. Low-single-digit to mid-single-digit growth seems to imply a pickup for the remainder of the year. Just wanted to get a sense of your visibility into that and other drivers expected to be more used and rental? Or is there something on the new equipment front that you're seeing as well?

Michael Tschiderer: Yes, Matt, this is Mike. It's a combination of things. I think we will see some further upticks in the growth of the rental business. Keeping in mind that it has a small top line impact, but it impacts margin more significantly. As we look at our order levels in back orders and open orders, we believe they are going to get us back to that low- to mid-single-digit growth we've talked about for a full-year for that particular segment.

Matthew Koranda: Okay. Then just one housekeeping on NBS. Was the purchase price booked in fiscal Q1 or it will be next quarter? I didn't see it broken out in the cash flow.

Michael Tschiderer: No, it was so small, we just put it as part of CapEx in the cash flow statement. It was booked, but it's just so small. We're just taking the simplified approach putting it into the CapEx number. So you will not see any other formal disclosure or a pro forma that might be required with a larger acquisition.

Matthew Koranda: Okay. And then no change to the full year CapEx guide either? I assume that's not really all that impactful.

Michael Tschiderer: No. We kind of look at it as one of those opportunities, just something that happened to be the acquisition of certain assets of a business. It could have been something else that was opportunistic. It happened to be a small company.

Lee Rudow: Matt, if you recall, the drivers behind our acquisition strategy are threefold. We look for geographic expansion where we can achieve that. We look for tuck-in, bolt-on type acquisitions, and we're always looking to increase our expertise and capabilities. NBS was a small company in close proximity to our Phoenix lab, it is a really easy bolt-on for us, and we picked up this niche capability in flowing and gas calibration. So that's going to be something that we do not have to outsource anymore, and it's going to queue us up nicely for potential opportunities. So the acquisition was small in terms of dollars, but I think the potential is good. It's an acquisition we can make very easily with very little risk and one that benefits the company.

Operator: Our next question comes from the line of Dick Ryan with Dougherty & Company.

Richard Ryan: Thank you. My questions are back on the new business opportunities and the strong pipeline you talked about. Is this kind of a bulge in the quarter, if it's a record level? Or how has the trend been? I know you're not quantifying the new business opportunities, but how has the trend been? Also, you mentioned larger opportunities versus let's say smaller transactional sorts of pickups. Can you provide a little more perspective on that as well?

Lee Rudow: Sure, Dick. I would characterize the new business like this. When we look quarter-to-quarter, you get a pulse for the organization by looking at the pipeline that exists, the quotes that you're involved with, proposals that you're making, and then the confirmations that we call bookings, where we receive the PO for the intent to have work flow our way.

In the first quarter, when we say we had record levels, that's because the combination of those wins certainly would indicate that work is going to flow through in the remainder of the year. There were two or three significantly-sized wins, relative to what we do and how we do it, that I think stand out. That's a good thing. But, it doesn't mean that on the lower end, that at the 20 to 120 or even transactional business that we go after as well, by any means decreases. So, I think you see a healthy flow across the transactional business, the what we call 20 to 120, and the larger accounts. They had different timings in terms of how they play out, when they start and how the on-boarding of those accounts go. That can fluctuate a month here, a month there. Sometimes we call it revenue realization, right? You have the order booked, but for something either on our end or most likely on the customer's end, it takes a little bit of time to get started, to get systems going. If you're doing a permanent on-site, for example, to establish some computers and connectivity and some things, assets perhaps. So quarter-to-quarter, I don't tend to focus on that number. The pulse is good. The bookings were good. The pipeline's good. And so, when Mike and I make the comment that we're not concerned with our goal of the mid- to high-single-digit organic growth, we're factoring all those elements.

Richard Ryan: Okay. And your part of the value proposition that's having distribution generate leads, is that starting to be seen with some of this new business and potentially with some of these larger wins?

Lee Rudow: I can't speak to that specifically. I don't have that kind of information in front of me. I don't recall seeing information regarding a lead that led to one of these bigger accounts. I can tell you that, on the larger, say \$0.5 million or \$600,000, \$700,000 a year, even up to \$1 million a year accounts, the sales cycle is longer. So chances are, top of mind, as I think about these accounts, we've been working on some of them for even up to a couple of years. That's not atypical in any way. I will say, in general, and you're right, Dick, the distribution for us, in a sense that it provides lead, is a true differentiator. When we look at who we compete with, three national companies and smaller owner-operators, none of them, to the best my knowledge, have that advantage, have that lead source that we do. That's going to continue to be a differentiator for us, independent of the fact that I can't say that like the last three big wins came from that, but a significant material amount of our growth does come from those leads and those interactions that we have on distribution.

Michael Tschiderer: Yes. I think from what we've been able to see in just some of the data supports, it's kind of the same. We've had some larger wins, but that overall mix of where an opportunity starts from continues to be strong and continues to be different for us than others have. It's not like, because we're having a few large wins, that that mix or that differentiation has changed significantly, Dick.

Richard Ryan: Okay. And where do you think you're taking market share from? Is it from the larger competitors or the smaller ones?

Lee Rudow: I feel pretty comfortable saying from our larger competitors. You have to remember that our value proposition, aside from the distribution piece, is rooted in our quality. For the last decade, we have spent an awful lot in terms of infrastructure to support, what we call, being the highest quality in the industry. I think part of what's going on is that, as the economy picks up and is healthier and industrial markets are strong, people are looking at our quality in a different light. Their business is good and, in some cases, they're willing to pay a higher margin to come onboard with us and get the quality services that we offer, because it's an advantage for them in terms of how they produce their products. I think some of it is economic energy and momentum, and it's helping us, because, in our opinion, we do have a better, higher quality product that people are spending money on today that maybe in tighter economies didn't happen. That's part of it. I think we continue to outperform, because we continue to invest in this business. We spend millions of dollars a year, as you know, in capital to increase our capabilities, our efficiency and our effectiveness, and this is resonating. As expected, it takes time, but the market is seeing that we're offering a really solid service and we've invested in our business, so I would attribute some to that as well.

Operator: Our next question is from Jim Maroney from Singular Research.

Jim Maroney: Gentlemen, I guess, the next obvious question is, just as far as outlook and acquisitions are concerned, are you looking to do a geographical expansion or would it be in regards to a product line? If so, do you have a sense of whether it would be on the Service side or on the Distribution side? And if it's from the Distribution side, are you looking more at the rental market? Could you perhaps just give us some color? In addition, as you're looking at the market, can you give me a sense of what the valuations are like out there, the multiples? How would you go about perhaps financing that? Do you have enough cash generated internally or would you look for outside financing?

Lee Rudow: Okay, that's a lot of questions. Let me see if I can remember them all. Michael, help me. I'll try to knock them off one at a time. It's likely, Jim, that as we make acquisitions, they're going to be on the Service side of the business. Historically, that is what we've done and it's likely to be what we do in the future. Service is our primary growth engine, as we say, from time to time, and therefore, that's where we're likely to make an acquisition.

There are still three primary drivers, and I just mentioned them. Geography is one of them. There are six or seven gaps in our footprint in the United States and I'll just rattle off a few of them just for interest purposes: the Florida area, Atlanta, Dallas, Northern California, the Midwest, and perhaps Minneapolis, Maryland and possibly Virginia. These are gaps in our geographic footprint that I'd like to see covered, and we would certainly do that via acquisition if the opportunity presents itself. So yes, Service and geographic expansions.

But, like in the case of NBS, if we can pick up a niche service that makes sense and the numbers work out, we'll do that as well. From a multiple perspective, we've been very disciplined over the last 5 years or so. We typically pay 4 to 6 times. I don't know of a single example where we paid outside of that range, but I'm not saying we wouldn't for the right company. Would we stretch a little bit for a company with a perfect bid that we really thought would be of benefit to our company? Sure. But typically, we're in the 4 to 6 range and we'll stay that way. The pipeline of future opportunities, I think, is very solid right now and we expect to be active in that market. I'll give it time to see how it's working to make sure that we're positioned well to take advantage of acquisition opportunities.

I think I covered all of your questions.

Michael Tschiderer: I think there was just one more related to how we would finance that acquisition. The ones that we typically buy are these tuck-ins for geographic expansion capabilities, and we would likely use our debt facility, Jim. We have \$20 million available on our revolver facility right now, so cash/debt is what we would likely use for the kind of acquisitions that we have historically made and probably would likely make into the future.

Lee Rudow: Just to add a little color, Jim. One thing we've focused on is, our sweet spot has been in the past and will likely be in the near future in the \$5 million cost range. We haven't typically acquired companies that we would call bet-the-farm type deals. We have gotten really good at improving our integration process relative to these smaller deals, and they're accretive on day one. They add value to our company and they really augment and support our organic growth activity, because one of the bars that we set for ourselves is not only to acquire these companies because they're accretive, but to acquire them because we want to grow them.

We have backed away from deals that we didn't think were in the right territory or in the right place or offered the right services or we didn't think that we could grow them. So, those are the key elements - growth and stay in our sweet spot for the near future.

Jim Maroney: Got it. That's great. I think that did answer all of my questions. Just one quick follow-up. Would you also consider any markets outside of the U.S. and/or any new industries that you might see that have potential out there?

Lee Rudow: Jim, the current strategy is to continue with our plan as it is now. Eventually, will Transcat be a global service company? That may actually occur in time. And if it does, it's likely going to be on the coat tails of a customer, what we will call a sponsor. Perhaps, we would have a company that we do

business within the U.S. who wants us to come to a European country to support their calibration needs there. We would likely do that in the form of a permanent on-site. So, I see us expanding into the global markets eventually, but right now, our strategic plan focuses on domestic growth. There is a lot of low hanging fruit in this country and in North America, and that's where we're going to focus our efforts in the near term.

Operator: Our next question is from Steven Stern from Stern Investment Advisory. Please go ahead.

Steven Stern: Good morning, and congratulations on a good quarter. My question is on tariffs, which are, of course, in flux as we talk. Has any work been done internally on the possible impact or exposure on sales, expenses and ultimately profits? And we do have a very successful Canadian exposure in the company. Any thoughts on the impact of specifically the Canadian chitchat on tariffs?

Michael Tschiderer: Yes, Steve. Good question and very timely, of course. What we really see regarding tariffs impacting us is, we're starting to get notices from some of our suppliers that are going to be either impacted by tariffs or who want to raise prices, because now, even if they're a U.S. manufacturer, they know that the cost has gone up, so they can raise their prices. But, we really believe that anything that we have to pay from that incoming cost is going to be passed on to customers, so we don't see it as a negative impact to the profitability. If anything, in fact, it will probably raise the gross level of revenue, but it would probably likely raise cost at the same level with no impact on profit.

Related to Canada, we don't do a lot of cross border with Canada, so we would think that there won't be any impact in Canada. The only thing that is a little bit uncertain is the general economy and the impact that Canada may see as certain sectors are worried. It's kind of a broader issue than just us, but because we're pretty insulated there, we don't think it'll be a big impact cost wise. If anything, in Canada, it's going to be just more of the uncertainty for the general economy of Canada and how that impacts us.

Steven Stern: The impact would be on the Distribution sector and not in Services at all. Is that correct?

Michael Tschiderer: Yes, I think, if anything, we're going to see it in Distribution first and the most. In Service, there is probably a lag further down the road at much lower levels as a company may not be producing as much and may not have as many instruments to be calibrated, but it's a much less impact to us. There's much more of a lag to that than the actual impact on Distribution for sure.

Operator: This concludes the question-and-answer session. I'd like to turn the floor back over to management for any closing comments.

Lee Rudow: Okay. Thank you all for joining us on the call. We appreciate your continued interest and support. For those of you in the Minneapolis area, we are going to be participating in the CFA Intellisight Conference on August 15. And then, on September 6, we're going to be at the Dougherty Conference, also in Minneapolis. Feel free to check in with us anytime at either of these conferences or just reach out and give us a call; we'll be happy to talk to you. We look forward to talking to everybody again after the second quarter. And again, thanks for participating today.

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