

CUI Global, Inc. NasdaqCM:CUI

FQ1 2014 Earnings Call Transcripts

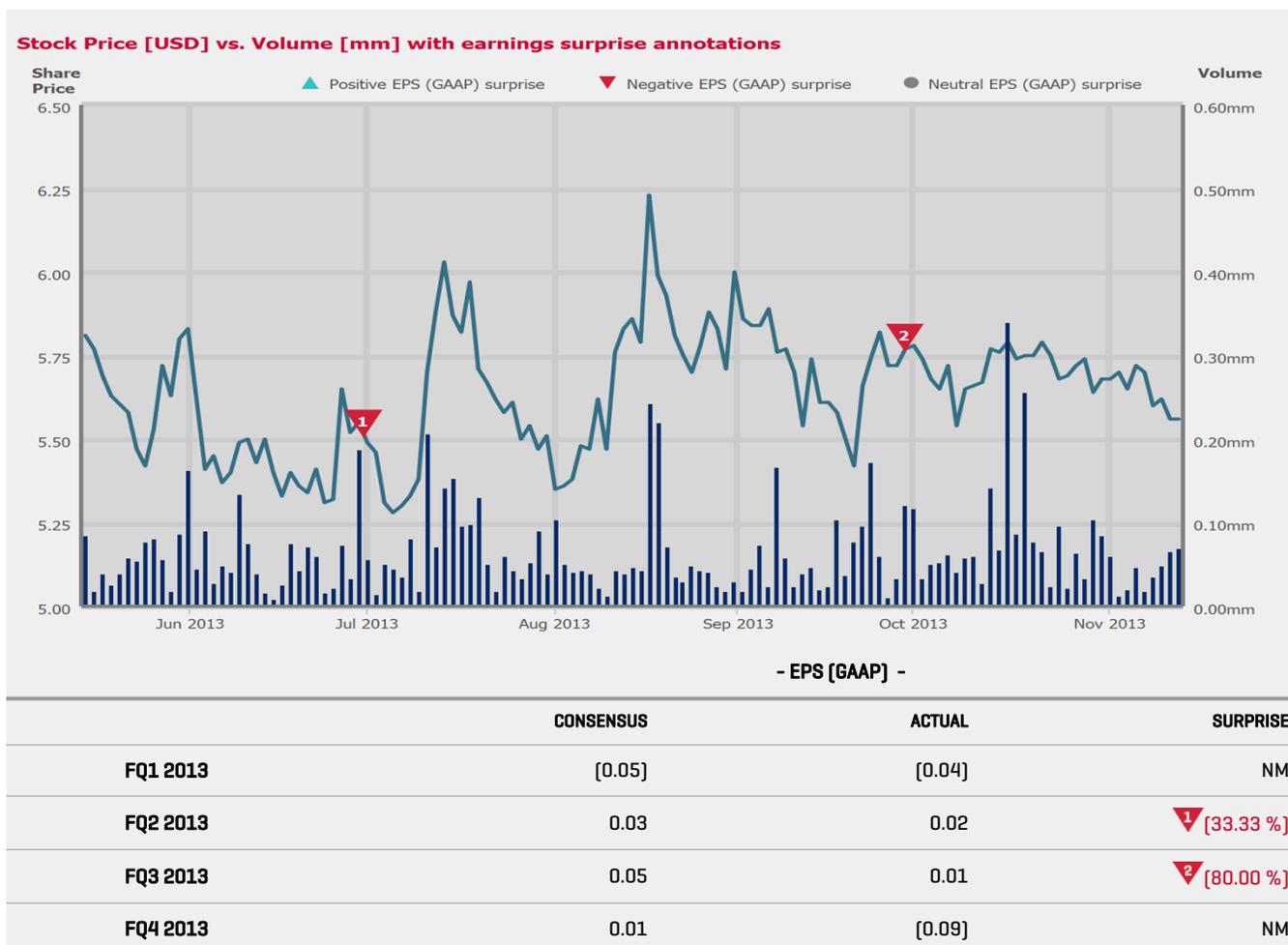
Monday, May 19, 2014 8:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2014-			-FQ2 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	[0.02]	[0.02]	NM	0.03	0.21	0.55
Revenue (mm)	16.04	16.90	▲ 5.36	19.19	83.81	108.28

Currency: USD

Consensus as of May-13-2014 1:22 PM GMT



Call Participants

EXECUTIVES

Casey Stegman

Daniel N. Ford

*Chief Financial Officer and Principal
Accounting Officer*

William J. Clough

*Interim Chairman, Chief Executive
Officer, President, General Counsel,
Chairman of Disclosure Committee and
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ANALYSTS

Alexander M. Blanton

Clear Harbor Asset Management, LLC

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Joseph A. Maxa

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Marco Rodriguez

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Morgan C. Frank

Presentation

Operator

Good day, ladies and gentleman. Thank you for standing by, and welcome to the CUI Global, Inc. Q1 2014 Earnings Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the conference to our host, Mr. Casey Stegman.

Casey Stegman

Thank you, and good afternoon. Welcome to the CUI Global First Quarter Earnings Conference Call for 2014. We appreciate you joining us today.

With me on the call Mr. Bill Clough, Chief Executive Officer; Mr. Dan Ford, Chief Financial Officer. The purpose of today's call is to review the company's financial results for the first quarter, as well as to provide you with some additional color on the business going forward. Following management's remarks, the call will be opened up for questions. Many of you have seen the company's press release, which was issued earlier today. If you haven't, it can be accessed at the company's website at www.cuiglobal.com.

Today, during the course of the presentation, we will be directing your attention to a series of slides. Those slides can be accessed during the call from the link in the press release that went out earlier today, or from the Investor Relations section of the company's website at cuiglobal.com.

As a reminder, this call will contain certain forward-looking statements within the meaning of Section 27-A of the Securities Act of 1933 as amended, and Section 21-E of the Securities and Exchange Act of 1934 as amended.

Such statements are subject to risks and uncertainties that could cause actual results to vary materially from those projected in forward-looking statements. The company may experience significant fluctuations in future operating results due to a number of economic, competitive and other factors, including, among other things, our reliance on third-party manufacturers and suppliers, the government agency budgetary and political constraints, new or increased competition, changes in market demand and the performance or liability of our products.

These factors and others could cause operating results to vary significantly from those in prior periods and those projected in forward-looking statements. Additional information with respect to these and other factors, which could materially affect the company and its operations, are included in certain forms the company has filed with the Securities and Exchange Commission.

And with that, I'd like to introduce Mr. Bill Clough, CEO of CUI. Bill?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Thank you, Casey, and good thank you, everyone, for taking the time to join us on this call today. I'm going to start with a brief overview of the quarter and now hand the call over to Dan to go over the financials. When Dan is done with his remarks, I will follow up with some additional commentary on some of the more promising things we are currently working on at CUI, and then we will open the call up for Q&A.

First things first, however, I'd like to say that I was very pleased with our performance for the first quarter of 2014, as we recorded \$16.9 million in revenue, a 68% increase as compared to the same period last year. Our gross profit margin was up 2% to 41%. Our adjusted EBITDA was \$900,000 or \$0.04 a share. The Power and Electro-Mechanical segment revenues were \$10.8 million in Q1, which was a 12% increase, as compared to \$9.7 million in the prior year comparable quarter. Within the Gas segment, we have roughly \$6.1 million in revenue, which is also a nice increase over the pro forma revenues from the Gas segment in Q1 of 2013 of approximately \$5 million. As I alluded to in our press release, we had a number of significant announcements during the first quarter ending in the second quarter. I'll review those individually after discussion of our

financials. Each of those announcements were significant and each represents additional progress as we continue to position CUI as a leader in developing new and innovative technologies. With all of that being said, let me turn the microphone over to Dan Ford, our CFO, so that he can run through the numbers in more detail. Dan?

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

Thank you, Bill. I'd like now to give the financial overview of the first quarter of 2014. The company's revenues were \$16.9 million for the quarter, up 68% from revenues of \$10.1 million for the first quarter of 2013. The increase in revenues was attributable to approximately \$1.2 million of growth within the Power and Electro-Mechanical segment and the addition of Orbital Gas Systems in Q2 of 2013, which account for approximately \$6.1 million of revenue this quarter. The cost of revenue for the quarter was \$9.9 million compared with \$6.1 million for the quarter ended in 2013. As a percentage of sales, the cost of revenues decreased slightly to 59% as compared to 61% in Q1 2013.

EBITDA for the first quarter of 2014 was approximately \$728,000 or \$0.04 per share versus an EBITDA loss of approximately \$108,000 or \$0.01 loss per share in Q1 2013. The adjusted EBITDA for the first quarter of 2014 was \$900,000 or \$0.04 per share. This compares with an adjusted EBITDA loss of \$25,000 in Q1 of 2013.

Gross profit was 41% or \$7 million. This is up from 39% or \$3.9 million in the prior year comparable quarter. Within the operating segments, the Power and Electro-Mechanical segment generated a gross profit margin of 41%, and the Gas segment generated a 42% gross profit margin for the 3 months ended.

SG&A expenses increased to \$6.2 million for the quarter compared to \$3.9 million for the same period in 2013. This increase of \$2.3 million is primarily the result of the acquisition of Orbital Gas Systems Ltd. in April 2013 and its ongoing operations, as well as increases associated with the overall increase in revenues. As a percentage of total revenue, the SG&A has decreased in the first quarter to 37% as compared to 39% in the prior year period. This is a result of efficiencies gained on increased revenues. The company net cash flow used in operating activities of approximately \$103,000 during the quarter, compared with the cash flow provided by operating activities of approximately \$63,000 for the same period 2013. The company had a net loss of \$487,918 or \$0.02 a share for the quarter ended March 31, 2014, as compared to a net loss of \$462,092 or \$0.04 a share for the quarter ended March 31, 2013. The loss for the first quarter of 2014 is largely attributable to the noncash amortization expenses of approximately \$785,000 associated with the intangible assets acquired with Orbital Gas Systems in April 2013. The adjusted net income for the quarter was approximately \$522,000 or \$0.03 per share in 2014, as compared to the loss of approximately \$374,000 or \$0.03 per share loss in 2013.

As of March 31, 2014, CUI Global held cash and cash equivalents of \$15.2 million and investments of \$11.7 million. The company also had 20,620,358 common shares outstanding at March 31, 2014. On May 12, we announced our plans to amend our previously filed quarterly reports on Form 10-Q for the quarters ended June 30, 2013 and September 30, 2013, along with the end report on Form 10-K for the year ended December 31, 2013. These restatements were filed on May 14, 2014. Our new auditor Perkins & Company., an independent member of the BDO Seidman Alliance, had identified during their first quarter and transition-related procedures what they felt -- what they determined was an inaccurate acquisition accounting for the deferred tax liability and the related increase in goodwill. Upon review of this by ourselves, as well as another third-party experts, we concurred, and we agreed to post a restatement. These restatements filed in May 14, 2014 have corrected these errors and had no impact on cash or cash flow. However, the restatement did result in reduction of our net loss, decreasing the net loss for fiscal year 2013 by approximately \$816,000 or approximately \$0.04 per share.

Now I will turn the call back to Bill.

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Thank you, Dan. Before we begin taking questions, let me take a moment to update you on a couple of larger projects we announced last year. In January, we announced the distribution agreement between Orbital and Ives Equipment Corporation. That agreement gives Ives the exclusive distribution rights of CUI Global's patented natural gas technology, including the GasPT, the GasPTi, and VE technology in the northeastern United States. Ives initially purchased 2 GasPT key devices for both customer demonstration and inventory. Also during the quarter, we completed a similar agreement with Benchmark Instrumentation &

Analytic Services that gives them exclusive distributing rights for Canada. Finally, during the second quarter, we announced an exclusive agreement with Yokogawa [UK] Ltd. That agreement named Orbital as exclusive representatives of Yokogawa's advanced instruments throughout the U.K. and Northern Europe. The agreement is a testament to Orbital's consistent ability to deliver high-quality, best-in-class service within budget and on time. The agreement will give us the ability to provide highly competitive bids for any and all large-scale engineering projects incorporating Yokogawa instrumentation. We are already bidding the first such project, a GBP 1 million metering installation for Scotia Gas Networks in Scotland. We believe these agreements represent significant steps in our plan to develop the substantial distribution network for our groundbreaking technology. We closed this quarter with 30 distributors up from 21 at the end of last year.

GasPT sales were strong in the quarter as we received orders for 33 additional units, and installed new 7 new units in the quarter. In late March, our VE technology was recognized by National Grid as a preferred option for British natural gas pipelines. This is significant as National Grid standardized the VE sample system and is both presenting and recommending the technology to the E.U. and Britain as "Best Practice." Additionally, National Grid accepted our proprietary Integrated Remote Information System, the IRIS technology, as a new method for remotely controlling and monitoring parts of its extensive pipeline transmission system.

During the quarter, we continued our discussions with Snam Rete, the Italian pipeline company, and currently have 6 GasPT2 units in the field testing that are performing quite well. We are optimistic that we will have final certification in the near future. For its parts, Snam Rete has recently conducted a due diligence visit to our U.K. facilities and have indicated that they were very satisfied with both our team and its capabilities.

Finally, we continue to move forward with GE, as evidenced by the joint press release regarding the incorporation of our IRIS-RTUs, including GE's hardware by National Grid, a press release, which has been posted on GE's website and published through GE's social networking system. We are still in negotiation with GE Aero regarding the incorporation of our GasPTi device into their gas turbine fleet, we continued to be quite confident of our ability to close that deal as we are the only technology capable of providing the real-time data needed to properly operate these extremely valuable machines.

On the electronic side, we introduced a new family of digital point of load DC to DC modules that set performance benchmarks in efficiency, power density and transient response to address the rapidly rising power challenges in distributed power architectures. We believe that these projects will be a key driver in our future revenue growth and the sales of the Power and Electro-Mechanical segment was quite strong during Q1.

In conclusion, let me emphasize our continued commitment to both our employees and our shareholders to grow CUI Global and its subsidiaries in an organized, efficient manner by introducing new products, attacking new markets, seizing opportunities and continuing to pursue and partner with some of the largest, most recognized industry leaders in both the natural gas and electronics market. We believe that partnerships with companies like National Grid, Ericsson, General Electric, Snam Rete and others, along with continued recruiting of distributors like Benchmark Engineering in Canada, Ives Equipment Corporation in the U.S., Digi-Key and Future Electronics, can only enhance the credibility of our products, the viability of our technologies and ultimately, the value to our shareholders.

Thanks to all of you for your continued support of the company. Now let's open the floor up for questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Eric Stine of Craig-Hallum.

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

Maybe we can just start with the distributors. Good progress there to be at 30. Maybe just thoughts on what the eventual number is or where the goal stands right now. And then just some commentary on what adding items in Benchmark has done in terms of visibility going forward, but also just building out the distributor base.

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Yes, good question. The number that we're shooting still is 40. That's how we -- those are the numbers that we identified initially, if you recall, as to the ones that we like to have in North America and Europe. And we're still shooting for that 40. And I think we'll have those -- at least all the qualified of the 40 because some when we got involved in, frankly, weren't what we thought they were once we've vetted them out. But I think 40 is the number we're looking for as being the right number for us. And really, it's a -- what we're doing is setting up the basis for, we believe, a quick ramp up in sales. Once the devices start getting really implemented by GE, Snam Rete and the other companies that are looking at it. Important fact, Ives has already sold several units that are being tested right now by Dominion Energy and they have as many as -- a need for as many as 50 units on their compressor turbines. If we passed the testing that we've just started with them. So Ives has been quite a good partner. As far as Benchmark is concerned, Benchmark is a Canadian company based out of Calgary, has a great influence on TransCanada. We hope TransCanada will be a very big customer. And as an example of what they bring to the table, we've already started now certification through the Canadian bureau of measurement, which will allow us to become fiscal monitors up there, even though we had been tested by TransCanada through an independent lab and fully passed everything that TransCanada needed to see. Until you get up there and start working with a Canadian company, you really don't know things like the fact that you need Canadian bureau of measurement certification. So they bring that kind of in-house knowledge and ability to go right to the source. And I think that's what we'll see with all of our distributors. That's why we believe the distributor system is the best system to go with.

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

Got it. And then just back to Ives quick. I know that they -- one of the opportunities they were pursuing and, frankly, one of the reasons you added them as a distributor was Kinder Morgan, just an update on that? How that's playing out?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Yes. That's really in Ives' hand. I know that they're still in contact with them, but I think that Ives felt that the bigger near-term opportunity was Dominion and they've really focused on that. And actually, we've helped them with that by sending one of our group of engineers over to set the machine up for Dominion. I know that they are in talks with Kinder Morgan, but I don't believe that machine has been installed yet.

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

Okay. Maybe just turning to GasPTI, you called out the 33 that were ordered this quarter. Just any further details, are there any new customers in that number? Are there any that you view you as a signal as kind of moving towards larger numbers?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Well, I think, the ones that are most exciting to me is the 6 of the 7 that were installed -- were in this certification program that Snam Rete has started. They are having the 6 placed -- have already been placed about 1.5 months ago actually. In field trials, they are all being monitored by a group from the University of Milan, who are going to be in essence recording data and preparing an independent report after 4 months of operation. All 6 of those are working very, very well. Obviously, we made every effort to make sure we installed them and made sure they were installed properly, which they were. But our understanding is that once that process is done with the University of Milan, they can then approach their regulator and start ordering devices. So that's probably the most exciting of all.

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

Got it. And did you -- could you say, how -- I mean, is there a time frame you're kind of expecting? It sounds like you think it might be fairly quick in terms of that -- how long that trial goes for?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Yes, absolutely. They've told us 4 months. In about 1.5 months coming up on 2 months, I think it'll be 2 months for the 1st of June. So they set it up for 4-month test, and they expect the university to have their report prepared a month after that. So hopefully, they'll hold to that time schedule. Again, I certainly can't promise.

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

All right. I get it.

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

But that is the time schedule we've been given. And I will tell you this, they actually came out with a team and did due diligence at Orbital last week, Monday and Tuesday, and walked away very, very impressed. They've deep dived into our engineering capabilities, really looked at what we can do, if we have calibration and supply chain and were very impressed. In fact, my understanding is that they were quite impressed with what we can do and with our capability.

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

Got it. In that, well, the 4-month time frame, I mean, so that would be in the fall. I mean, that's still -- just thinking about kind of the date early next year where that program needs to be in place, so that would give you sufficient time to satisfy that number, if that's how it plays out.

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Absolutely. Yes, we're gearing up for that number. We definitely -- we expect that to happen, and we're geared up to move. The moment they give us some indication that they're ready to go, we'll be ready to move.

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

Okay. Last one for me just on the power electronics side. That was a nice sequential bounce back in the quarter that sometimes can be the seasonally lowest. Just -- were there any onetime items in that or is it just more underlying strength?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

I'll tell you, I think, we've talked about this before and I'll let Dan follow up on this in a moment, but the revenues, both in the contract side and in the electronics side, are going to be lumpy. You're going to see big quarters, and you're going to see some quarters that are not quite so big. But generally speaking, over the course of the year, you'll see steady growth in both the Electro-Mechanical and in the Gas. Dan, do you want to follow up on that a little bit though?

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

Yes, I'll just address the specific part of Eric's question regarding any new customer or onetime things there. Nothing particular stands out in that in the first quarter, maybe really had to do with customer ordering schedules, manufacturing timelines and those things. The \$1.2 million was coming across-the-board growth within that group and they decided to do a timing for customer orders, our ability to manufacture within those timelines and where those things fall.

Operator

Our next question comes from Joe Maxa of Dougherty & Company.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

I wanted to ask a little more on the SG&A line. Sequentially, pretty nice uptick. Can you give us little color? Is that just primarily related to the increased revenue or did you add headcount? Where did the extra \$1 million come from?

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

Sure, Joe. The biggest piece of that is in the Q1 of 2013. We did not have Orbital yet incorporated into the P&L. We acquired them April 1. So the biggest portion of that increase is related to Orbital operating. And then with that is also the growth in revenue during the quarter within the Power and Electro-Mechanical, about \$1 million. So the majority of the increase is related to Orbital acquisition, and then piece of it is just overall increase pertaining to growth on the revenue side.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

So, sorry, Dan, I was asking sequentially. So as I would imagine, the expenses are the same.

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

Sorry, yes. The Q4, yes, it has to do with operational growth and the growth revenues related. So, yes...

Joseph A. Maxa

Dougherty & Company LLC, Research Division

Okay. So that's a good base number to think about for the rest of the year?

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

Yes, that would be fair.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

Okay. I also wanted to ask on the Gas side, revenue has been relatively flat last 3 quarters in a row. Do you expect to see some pickup? I'm just curious because I know you have these odorization skids and you've had a couple of specialty probes shipped, throw that in with the same question, did those ship in the quarter? Are those more of a Q2 event?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Yes, those will ship in the -- in Q2. But I will tell you that one of the things that we've seen in the pure contract side, the legacy side of the Gas business, is that this Rio initiative has -- really did slow down Natural Grid and some of the projects they wanted to get moving on. IRIS is a good example. IRIS is a project that now they have literally systems that are so antiquated that they have no replacement parts for them. So we expect that to start gearing up now towards the end of the year simply because they're now coming out of all the procedural things they had to do with Rio. They literally had a situation when they were charged with rebidding all of their jobs so that they were able to justify everybody's position, and it was quite an undertaking for them. And I think they really underestimated the amount of work they would take internally and it really set them back project-wise. But again, I think they have a lot of things on their plate right now that they want to start moving on. So while we don't give forecasting, I think the National Grid is going to start ramping up over the second half of the year.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

Okay. So we'll see more pickup with them in the second half versus next quarter perhaps?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Correct.

Operator

Our next question comes from Marco Rodriguez from Stonegate Securities.

Marco Rodriguez

Stonegate Securities Inc., Research Division

I wanted to kind of follow up on the distribution channel. Looking for a little bit of clarification. I believe on the last call, you guys were discussing obtaining local distributors for the Canadian-type operations. So that was kind of a necessity there. But here, you've got Benchmark and is that all you need for TransCanada or do you still have to look for somebody more local there?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Now Benchmark is their primary provider of equipment and instrumentation. One of the nice things about Canada is it's much more like Europe. It's really dominated by one player and that's TransCanada. So you can handle most of which you need to do with one distributor. TransCanada is based out of Calgary. The Benchmark is based out of Calgary, and so it works out well. I think we talked about this, in Europe, almost without exception, you have single pipeline companies that are controlling entire countries. Unlike the U.S., where you have some 210 different pipeline companies with literally hundreds of thousands of miles of pipeline through a huge geographic area, so you need much more diverse distributor group as opposed to at Canada as an example, or as an example, Italy, where you have Socrate that serves Snam Rete. So Canada will be covered by Benchmark, and

we're actually quite proud of getting Benchmark because they are quite respected up there.

Marco Rodriguez

Stonegate Securities Inc., Research Division

Got it. Okay, that's helpful. And then the part in press releases you had out during the quarter in regard to National Grid for IRIS and the VEProbe, maybe you can provide a little more color. Just given the timing of these releases, when you think that they start to develop into higher order flow, if you will?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Yes, absolutely. I think my last -- the question I asked last for Joe is the answer to that. This Rio project that they have been involved in is an internal project. It's in essence a mandate that they upgrade their entire system for technology, which, of course, is great for us. But as part of that charge, they were also charged with reducing internal cost by some 20%. So for them to have to do a bunch of internal processes that had nothing to do with outside vendors, us or anyone else, what it did is it slowed everything down. IRIS is a great example of that. We've done, as the press release indicates, we've done almost 70 units now. We will install all 69 of those units, I think, sometime next quarter, third quarter. They have as many as 320 more units that they need installed, and they have been promising us for weeks now that we will be getting the RFP for that. They haven't gotten it out yet. That's just an example of what's happened because of their internal issues. Those internal issues have now largely resolved themselves. We expect them to start moving forward. Not only with IRIS, which is one project that we're quite involved with, but with this implementation of the VE technology throughout their system, they literally are going to be issuing a white paper shortly, that will recommend both to all British pipeline companies and to the E.U. that the VEProbe be the standard by which any intrusion to the pipe takes place. So all of those things, I think, we'll see starting to develop as the year progresses.

Marco Rodriguez

Stonegate Securities Inc., Research Division

Got it. And then with regard to National Grid on the VEProbe press release, I mean, just kind of curious -- it was obviously specific to the VEProbe and not the GasPT. Any kind of color you can provide there?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Sure. Think about it, the VEProbe is a much more broadly applicable device to the system. A good example of that is Statoil is looking at implementing the VEProbe and the GasPT in their Hammerfest refinery up in Norway. And of the -- in that particular terminal, they will need 4 to 6 GasPTs, which is a great number, but they will need 150 different VEProbes. The reason being that the VEProbe is used anywhere you insert anything into the pipeline to take a sample, to take a temperature reading. Certainly, anytime you invade that pipeline, anytime you stick something into that gas flow, it's much safer to use the VE technology, because you prevent the vibration that a standard probe causes. So that's why it's much more broadly applicable. We will sell many more of the devices. I mean, the MSRP is lower. But again, you'll sell many more of those devices simply because there's so many more intrusions to the pipeline than there are just analyzers.

Marco Rodriguez

Stonegate Securities Inc., Research Division

Got it. And last quick question, I will jump back in queue. On coming back here to Snam Rete, the white paper, the independent report the University of Milan is doing, are you getting any insight into what numbers that they're tracking or you're doing that on your own?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Actually, they're tracking it independently. We're tracking it ourselves just in conjunction with them. We have no ability to affect it. We can't in any way, obviously, touch the machines or touch the data. What they're doing, though, is they're tracking the 6 units that are sitting side-by-side gas chromatographs, and what they're tracking them for is accuracy. To make sure that they're as accurate as the gas chromatograph and obviously, they're also checking to make sure that they're durable and if they're going to operate. And again, the nice thing that we're seeing is just as we've seen in other tests, they're actually just as accurate as the gas chromatograph when the gas chromatograph is working. And across the board, the gas chromatographs are working as they typically do about 84% to 86% of the time. So about 14% of the time -- 14% to 16% of time the gas chromatograph is offline because it needs to be calibrated, it needs carrier gas. It's a very temperamental instrument. Our instruments, all 6 of them, they've only been in operation for 6 or 7 weeks, but they've worked 100% of the time, as our instrument is designed to do. There's been no down time. There's been no lag. There's no requirement for the calibration, no requirement for calibration gas. So the University of Milan so far, at least, are saying quite good things. Although again, they're keeping their cards pretty close to their chests. They're not going to tell us too much anyway.

Operator

Our next question comes from Evan Richert from Sidoti & Company.

Evan Richert

Sidoti & Company, Inc.

Just one question on GasPT, a follow-up to what you were talking about earlier. Any idea when you -- what the timeline would look like as far as getting fiscal monitoring certification in Canada?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Actually, we think a lot of it is going to depend on -- we have a report coming out very shortly from Ofgem in the U.K. It's going to -- that's going to certify the device for full fiscal monitoring across the entire National Grid system, and we're going to use that data to push through Canada. We think it's going to be relatively simple. We've also got an agreement now -- or actually we don't have the agreement, but Benchmark has obtained an agreement from TransCanada that they're going to sponsor the certification through Canadian bureau of measurement. So I can't tell you the exact timeframe, but I think with the data we have from Ofgem, and with the sponsorship of TransCanada, it can't take too long.

Evan Richert

Sidoti & Company, Inc.

Okay, great. That's helpful. I'll hop back in the queue.

Operator

Our next question comes from Alex Blanton from Clear Harbor Asset.

Alexander M. Blanton

Clear Harbor Asset Management, LLC

I wanted to ask you, I've been curious about something. You highlighted Benchmark and Ives and so on, but you have 30 distributors, and you haven't said much about the rest of them. So could you just give us a little idea of why that is? I mean, are they much slower? Or why do you talk about just a couple of them?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Yes. I think, they're just much smaller. For example, we have progressive instruments out of Houston, Texas, which is nice little operation, but much, much smaller than Ives or Benchmark. And the others are -- many of them are in Europe. Norsk is Norway up into Sweden in that area, which, again, a very reputable firm up there in that area. But I don't think many of [indiscernible].

We've talked a lot about Socrate in Italy and North Africa. But really, it's only because Ives and Benchmark were 2, I think, real critical and quite high-profile distributors that we got.

Alexander M. Blanton

Clear Harbor Asset Management, LLC

And the other 10 that you're thinking of, are there any really good ones in that group that we should be looking forward to you signing up?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

There are a couple of very prestigious ones that we're talking to, but I'm -- really I'm not at liberty to give you names right now. But yes, there are a couple. There are a couple that if we sign them, there will be a press release here.

Alexander M. Blanton

Clear Harbor Asset Management, LLC

And on the same topic, are there any that, for some reasons, that are important in the world that you're not talking with?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

No. We've -- the ones -- everyone that we've wanted, we signed. The only ones that we have not followed up with is ones that when we got involved with them, simply didn't fit with us. Either they didn't have our type of instrumentation, they didn't have the network or the contacts we felt were strong enough, or they had someone else who we felt was stronger in that area. So no. All the people that we wanted, we've gotten.

Alexander M. Blanton

Clear Harbor Asset Management, LLC

Okay. Now I want to switch to another subject as a follow-up, and that is the restatement of your quarterly statements, which is actually isn't material at all in my view, and you've already done it. I think you did it a day or 2 after you announced you're going to do it. Even though in reading the legal language of those announcements, it seemed very dire and it was going to take you a long time to restating. In fact, that is not what happened. And yet when that was announced, the stock went down 25% after that announcement, almost immediately, and hasn't really recovered a lot. So could you give us a little color on that? I believe that happened after you switched accounting firms. And you switched to a very reputable firm, the largest one in Portland, which has ties to BDO from a very small firm. And they found something they wanted to correct, and that's all that happened. Isn't that the case?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

It is exactly the case, Alex. And again, I don't want to get into a political discussion about legal notifications of what we need to or not need to do. I would tell you that I worked very hard, as did Dan and his team, to get that out immediately. We did not want to let any grass grow under our feet, frankly, because we agree with you, it was not a big deal. However, that being said, we also had to agree with the new audit firm that said it was -- it did have a material impact. Although not on cash or cash flow, it did have a material impact on what we had reported. But you're absolutely right. We wanted to get it done and get it behind us. Now as far as the stock price, I can't -- I'm not in a position to comment on stock price, either up or down. We work very, very hard to bring a lot of value to shareholders. We work very hard to conduct our business in a way that adds value. On the other hand, there are certainly institutions and others that have certain criteria in their bylaws, whereby if a restatement occurs, whether it's good, bad or indifferent, they have to take certain actions. So that could've been part of it. But again, you absolutely captured the color completely. It was not a big deal. It was not something that was intentional on our part, certainly. And part of it was the fact that

we did in fact do what a lot of people had suggested, and that is we retained a much more sophisticated audit firm who looked back at our acquisition. And I guess the good news is, that was the only thing that they really identified that was material. So again, I'll leave it at that.

Alexander M. Blanton

Clear Harbor Asset Management, LLC

It was material-positive impact?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Yes, exactly. Yes, it was material positive. Dan, did you want to follow up anything from that?

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

No. I think, that's exactly what I would have said. And just as you noted we filed and got the restatement done as quickly as we possibly could, in order to try and give the real message out there of what the true impact was on those. And we notified as soon as we were confident or had identified the restatement needed to be done, we followed the appropriate SEC guidelines to announce that to markets, and then we promptly thereafter got our restatements completed and reissued. So it was a lot of work. And then it took -- we had to work with our former accountants as well, former audit firm as well, because they were the ones opining on that opinion. But in general, your analysis was really spot on.

Operator

Our next question comes from Morgan Frank of Manchester Management.

Morgan C. Frank

A couple of questions just to be clear. So on the PT2, there were 7 that were recognized for revenue and another 33 that were sold, but not yet in revenue. Is that correct?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

That's correct.

Morgan C. Frank

And again, can you give us the ASP on the ones that did sell?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Yes. The -- it was -- it varies. The 6 that went to -- that were installed, the 6 that were installed for Snam Rete were the analyzers only. The -- that was the -- I think there's 20,000 ASP. And the other one was a Dominion GasPTi, which I believe was 70,000. It was a gas turbine device. I believe it was 70,000.

Morgan C. Frank

Got it. Great. And then -- so of the -- so with the 73 VE Probes sold, can you give us a sense of what the revenue was there?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive

Officer of CUI

Let me look at that, hold on one second, let me pull it up. Yes, the 19 that were probes that were in fact probes only would have ranged in price anywhere from \$6,500 to as much as \$12,000. I think -- I don't have a breakout of that. The sampling systems would have run anywhere from \$15,000, as much as \$25,000, and the thermal wells are about \$6,500 a piece.

Morgan C. Frank

Got it. So can you give us a little color on what's been going on with Emerson, if anything?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

It's really early stages. I mean, all I can tell you is we're talking to them. And I think we've made this fairly clear. We're talking to them about a solution for CNG, compressed natural gas for vehicles where we would be measuring the, in essence, value or energy content of the gas at the pump where the vehicle is actually fueled. But it's in very early stages. So there's -- I really have nothing other than we're still talking with them.

Morgan C. Frank

Okay. And then, were there any IRIS units recognized for the revenue in the quarter?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

We didn't break that out. There would have been some installed, but I couldn't tell you how many.

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

Yes, there's...

Morgan C. Frank

[indiscernible] percentage of completion? Or are you doing them...

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

They're under PoC, percentage of completion. So they're under the work in progress. There are some that are still in process right now, but we don't have that specifically broken out for [indiscernible]

Operator

[Operator Instructions] And our next question comes from Andrew D'Silva from Merriman Capital.

Andrew D'Silva

Merriman Capital, Inc., Research Division

I just got a couple of follow-up questions. Should we expect an uptick in SG&A due to the restatement in Q2? Or is that -- your new Q1 SG&A run rate, what we should we expect going forward?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Dan, you want to take that?

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

I will, yes. The restatement should not affect Q2 SG&A much. Obviously, we've got commodities that tend to occur in regards to that work and time related to that. But overall, that's not going to impact SG&A. So the Q1 SG&A run rate is a better measure to look at.

Andrew D'Silva

Merriman Capital, Inc., Research Division

All right. And then as far as your tax rate going forward, what should we model that at?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

The effective rate for the Q I believe is about 5.5%, and that should be kind of in line with where it will go forward now. That's in regards to primarily our taxes in the U.K., as the U.S. is fairly well sheltered from net-loss carryforwards at the federal and state level. And to date, those are all fully allowed for, or they have a full valuation allowance on those. So our effective rate is looking about 5.5% right now. So...

Andrew D'Silva

Merriman Capital, Inc., Research Division

Okay, great. And how should we think about National Grid? Are they going to send a request for proposal shortly? Do you have a time line as far as expectation when bids will become orders, or at least you will be guaranteed the contract?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Yes. I can tell you only historically, it's my understanding that their contract process takes anywhere from 90 to 120 days. So I -- that's all I can tell you. And that -- I don't know how they'll go out with it. I will tell you, they do have a problem with this because, as I mentioned to you, they have several metering stations right now and pumping stations that are running on fumes, if you will, in the sense that they have antiquated systems that have no replacement parts. So if they should have a breakdown, they would be in a real, real difficult situation. So they're aware of that. But I think their general contract time frame is 90 to 120 days.

Andrew D'Silva

Merriman Capital, Inc., Research Division

Okay. And this is kind of a GasPT question. So you installed 7 and you have orders for additional 33 units in the first quarter, correct?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Correct.

Andrew D'Silva

Merriman Capital, Inc., Research Division

And for those orders, should we figure all 33 units will be revenue-generating orders? Or will it be similar to what happened in 2013 where you had 111 placed, only 20 were revenue generators and then some were sell-through related before they could become revenue-generating items?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Yes. All I could tell you is we're seeing more installations occurring as time goes on, and we see the pace picking up. So I can't tell you definitively when we will see revenues on all 33 of those units, but I can tell you that the pace is picking up, we see that now. So I think, it will be sooner rather than later.

Andrew D'Silva

Merriman Capital, Inc., Research Division

But those 33 units, once the orders are received that is not a guarantee of actual revenue in a given quarter?

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

That's correct. That is correct.

Operator

Ladies and gentlemen, we have reached our allotted time for questions. I'd now like to turn it back over to Bill Clough for closing remarks.

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

Thank you, Eric. Just in closing, again, I wanted to thank all of you for your support of the company. I think there's been some really exciting things happen this last quarter. As we move forward, I think we'll be looking for some developments in the GE relationship. I really do think we're going to see some movement in Snam Rete this year. And again, as I mentioned, as 1 or 2 of these bigger organizations start to develop and implement these technologies, we have now in place a really sophisticated network of distributors who could rapidly take these products to market. So I think we'll see growth in that area as well. So again, thanks for everything. We will probably be talking to you, sooner than -- either Dan or I are prepared to, for our second quarter numbers in the next little while. So thanks, again, everyone. Dan, do you have anything further?

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

I'll just say thank you to everyone for participating in the call and for your continued support. Thank you very much.

William J. Clough

Interim Chairman, Chief Executive Officer, President, General Counsel, Chairman of Disclosure Committee and Chief Executive Officer of CUI

All right, Eric, thank you.

Operator Ladies and gentlemen, this does conclude today's conference. Thank you for your time, you may now disconnect. Everyone, have a great day.

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