

CUI Global, Inc. NasdaqCM:CUI

FQ2 2014 Earnings Call Transcripts

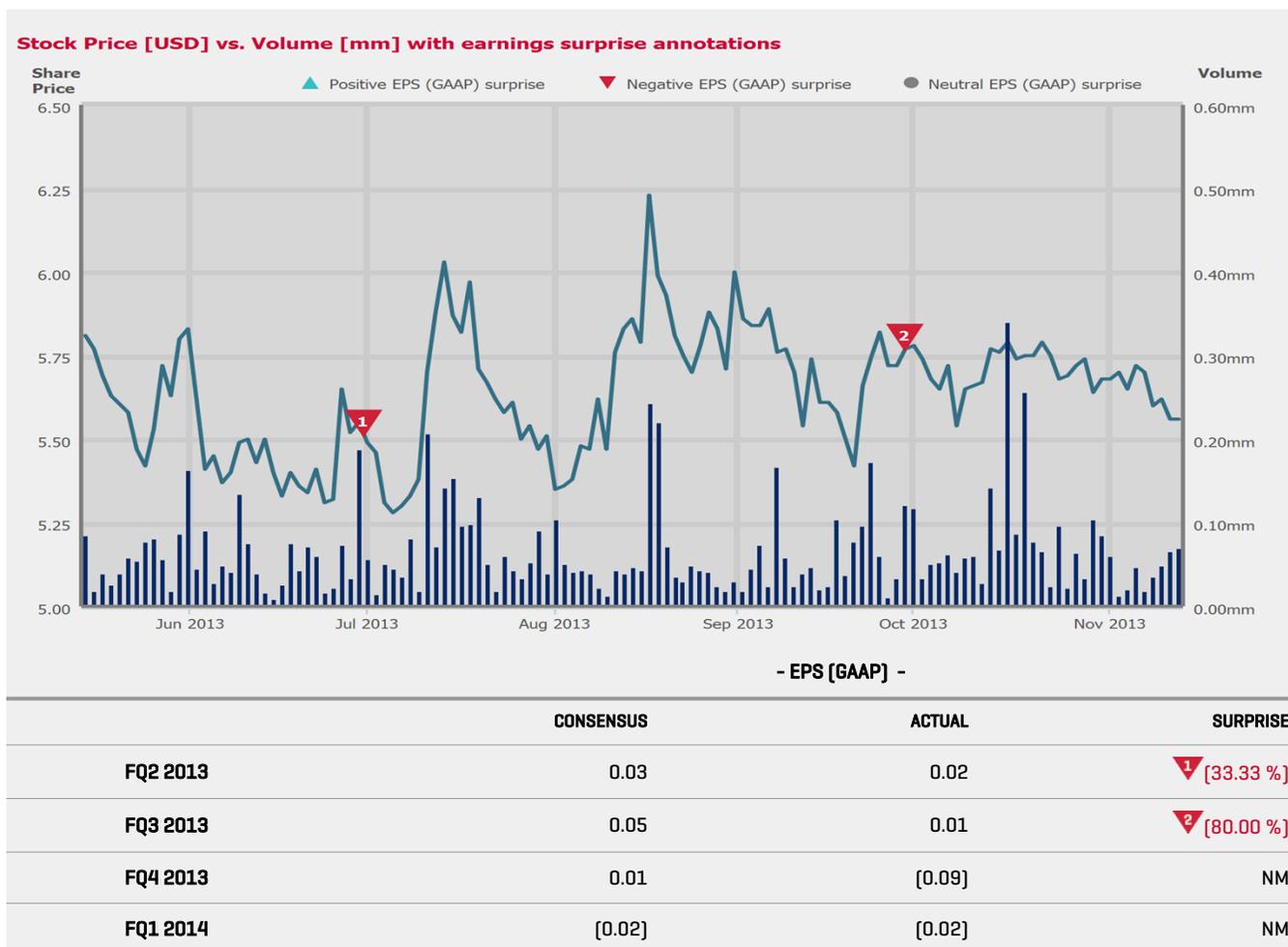
Tuesday, August 12, 2014 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2014-			-FQ3 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.00	0.00	-	0.06	0.14	0.50
Revenue (mm)	18.50	19.21	 3.84	20.62	82.13	106.75

Currency: USD

Consensus as of Jul-14-2014 3:47 PM GMT



Call Participants

EXECUTIVES

Casey Stegman

Daniel N. Ford

*Chief Financial Officer and Principal
Accounting Officer*

Unknown Executive

William J. Clough

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

ANALYSTS

Andrew D'Silva

*Merriman Capital, Inc., Research
Division*

Eric Stine

*Craig-Hallum Capital Group LLC,
Research Division*

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Marco Rodriguez

*Stonegate Securities Inc., Research
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Morgan C. Frank

Presentation

Casey Stegman

Thank you, and good afternoon. Welcome to the CUI Global Second Quarter Earnings Conference Call for 2014. We appreciate you joining us today. With me on the call is Mr. Bill Clough, Chief Executive Officer; and Dan Ford, Chief Financial Officer. The purpose of today's call is to review the company's financial results for the second quarter as well as provide you with some additional color on the business going forward. Following management remarks, the call will be opened up for questions. Many of you may have seen the company's release that was issued yesterday. If you haven't, it could be accessed at 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 our website at www.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 risk and uncertainty that could cause actual results to vary materially from those projected in the forward-looking statements. The company may experience significant fluctuations in the future operating results due to a number of economic, competitive and other factors, 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 performance or liability of our products. These factors and other 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.

With that, I'd like to introduce Mr. Bill Clough, CEO of CUI.

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 thank you, everyone, for taking the time to join us on the call today. I'm going to start with a brief overview of the quarter, and then I'll hand the call over to Dan to go over the financials. When Dan is done with his remarks, I'll follow-up with some additional commentary on some of the more promising projects 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 second quarter of 2014 as we recorded \$19.2 million in revenue, a 6% increase as compared to the same period last year. For the 6 months ended June 30, 2014, our revenues were \$36.1 million, a 28% increase as compared to the \$28.2 million in revenues for the same period in 2013. The 2014 year-to-date revenues included \$5.7 million of revenues from Orbital during the first quarter.

Our gross profit margin for the quarter increased from 39% to 40%. The gross profit margin for the 6-month period ending June 30, 2014, increased to 41% versus 39% in 2013. Adjusted EBITDA for the quarter was \$1.3 million or \$0.06 per share. The Power and Electro-Mechanical segment revenues were \$13.6 million in quarter 2, which is an 8% increase as compared to \$12.6 million in the prior year comparable quarter.

Within the Gas segment, we recognized \$5.6 million in revenue. As I alluded to in our press release, we had a number of significant announcements during the second quarter. I will review these individually after a discussion of our financials. Each of these announcements were significant and each represent additional progress as we continue to position CUI as a leader in developing new and innovative technologies. With all that being said, let me turn the microphone over to Dan Ford, our CFO, so that he can run through the numbers in a little more detail. Dan?

Daniel N. Ford*Chief Financial Officer and Principal Accounting Officer*

Thank you, Bill. I'd like to now give a financial overview for the second quarter of 2014. As Bill has mentioned, the company's revenues were \$19.2 million for the quarter, which is a 6% increase from revenues of \$18.2 million in the second quarter of 2013. The increase in revenues for the quarter is attributable to approximately \$985,000 of growth within the Power and Electro-Mechanical segment.

Year-to-date, revenues of \$36.1 million represent a 28% increase over the prior year comparable period. Exclusive of the \$5.7 million addition from Orbital revenues during Q1 of 2014, the year-to-date increase was 8%.

Cost of revenues for the quarter was \$11.5 million versus \$11.1 million for the same quarter in 2013. The cost of revenues for the first 6 months of 2014 were \$21.4 million versus \$17.3 million in 2013.

As a percentage of sales, the cost of revenue has remained consistent for both the quarter and year-to-date period in the 59% to 60% range. At June 30, 2014, the Power and Electro-Mechanical segment held an unaudited backlog of orders totaling \$14 million and the Gas segment held an unaudited backlog of orders totaling \$23.7 million.

EBITDA for the quarter was \$868,000 or \$0.04 per share versus \$1.6 million or \$0.08 per share for the same period in 2013. EBITDA for the 6 months ended June 30, 2014, was \$1.6 million or \$0.08 per share as compared to \$1.5 million or \$0.10 per share during the 2013 comparable period. Adjusted EBITDA for the quarter was \$1.3 million, approximately \$0.06 per share versus \$1.8 million or \$0.10 per share in the second quarter of 2013.

With adjusted EBITDA for the 6 months ended June 30 at \$2.2 million or \$0.10 per share versus \$1.8 million or 12% per share in 2013.

Gross profit for the quarter was 40% or \$7.7 million, up from 39% or \$7 million in the prior year comparable quarter. The gross profit for the 6 months 2014 was 41% or \$14.7 million as compared to 39% or \$10.9 million in 2013.

Within the operating segments, the Power and Electro-Mechanical segment generated quarterly and year-to-date gross profit margins of 39% and 40%, respectively, while the Gas segment generated a 42% gross profit margin for the quarter ended and year-to-date period at June 30.

Selling, general and administrative expenses increased to \$6.5 million for the linked quarter compared to \$5.3 million for the same period in 2013. The increase is primarily associated with the ongoing activities to reach new customers, promote new product lines, new product introductions as well as the overall growth in expenses in relation to the revenue increases during the quarter and year-to-date.

As a percentage of total revenue, selling, general and administrative expenses have increased in the quarter to 34% as compared to 29% in the prior year. SG&A expenses for the 6 months ended were \$12.7 million versus \$9.2 million for the first 6 months of 2013. This increase is largely the result of the addition of SG&A activities from Orbital Gas Systems during the first quarter of 2014 totaling approximately \$2 million as it was acquired during Q2 2013.

Additional increases during the year-to-date period are consistent with those increases discussed for the quarterly period. SG&A as a percentage of total revenue increased slightly to 35% for the 6 months ended 2014 as compared to 33% in 2013.

The company had positive cash flow from operating activities of approximately \$49,000 during the 6 months ended versus cash flow provided by operating activities of approximately \$603,000 for the same period in 2013. The change in cash from operations is primarily the result of increases in assets from operating activities offset by the net income earned before noncash expenses. The company had a net loss of \$66,000 for the quarter ended June 30 as compared to a net profit of \$437,000 or \$0.02 a share for the prior year quarter ended. For the first 6 months of 2014, the company had a net loss of \$554,000 versus a net loss of \$25,000 in the same period 2013. The loss for Q2 2014 is largely attributable to the noncash amortization expenses of approximately \$800,000 associated with the intangible assets acquired with Orbital Gas Systems in April 2013.

Adjusted net income, which represents net income or loss plus the amortization expense of the intangible assets acquired via the Orbital acquisition plus the expense associated with stock options and notes and other stock compensation for services and compensation stock for the quarter was approximately \$1 million or \$0.05 per share in 2014 as compared to approximately \$1.4

million or \$0.07 per share in 2013.

Adjusted net income for the 6 months ended June 30, 2014, was \$1.6 million versus \$1 million in 2013. As of June 30, CUI Global held cash and cash equivalents of \$15.2 million and short-term investments of approximately \$12 million. At June 30, 2014, the company had 20,634,072 common shares outstanding. Now I will turn the call back to Bill. Thank you.

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 the larger projects we announced last year. We have now signed up 33 new distributors in Europe, Asia and North America. In addition, on May 8, we announced the fact that National Grid has selected our IRIS technology for use in remotely controlling its entire grid. That release was made in cooperation with GE's intelligent platform group and was published on both GE's website and in their social network. Since that announcement, we have continued discussions with GE and are now preparing a presentation of the IRIS technology for joint marketing and sales presentations with GE to search North American customers as Kinder Morgan, Williams Pipeline, Spectra Energy and others. We believe that these agreements and our cooperation with GE's intelligent platform group represent significant steps in our plan to develop a substantial distribution network for our groundbreaking technology and specifically for sales targeting North American energy producers and transporters.

GasPT sales remain steady as we have now received orders for 21 units in 2014 and we are continuing to make progress with our larger GasPT opportunities. In addition to the sales of the GasPT technologies, we have now completed a 4-month field trial of 6 units by Snam Rete Gas in Italy. Those trials went very well with all 6 units passing the testing, which began at the end of March. In fact, one of the units significantly outperformed the gas chromatograph to which it was being compared when that gas chromatograph unexpectedly shut down for a 5-hour period, during which the GasPT device kept accurate records of the gas flow and energy transfer.

Snam Rete has informed us that the University of Milan acting as the third-party independent monitor of field trials expects to have their report completed in the next 30 days by which time the results will be forwarded to the Italian regulatory body for review.

We have meetings scheduled with Snam Rete and we are guardedly optimistic. But we may see a move to actually ordering units by Snam Rete after that regulatory review. At this time, we do not know how long that review will take, but it is only a review of the field trial results with no associated additional test.

The VE technology has proven to be a strong product for us as well and is now being considered by a number of large energy producers, transporters in both North America and Europe for implementation on their pipelines, both as sampling systems and as thermowell replacement. We have sold an additional 46 sampling systems and 39 thermowell applications amounting to approximately \$538,000 in revenue. Furthermore, we have had inquiries from numerous potential customers, including ConocoPhillips, Statoil and others. We continue to be quite confident about our ability to close those deals as we are the only technology capable of providing the vortex elimination and rapid sampling time, which are unique features of the VE technology, allowing us to provide a safer, high-value solution to the natural gas operator.

In conclusion, as I have before, 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 markets. We believe that partnerships with companies like National Grid, Ericsson, GE, Snam Rete and others, along with continued recruiting of distributors like Benchmark Engineering in Canada, Ives Equipment Corporation in the U.S., Shin Woo [ph] in South Korea; Real Flow [ph] in Shanghai; Digi-Key and 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 to the company. Now let's open the floor up for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Eric Stine with Craig-Hallum.

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

So I was wondering if we could start with IRIS, clearly making progress there with National Grid and also GE in North America. Any way that you can size the potential opportunity? You mentioned a number of pipeline companies that are thinking about this and GasPT gets a lot of the focus, but IRIS seems like it's a pretty big opportunity as well.

William J. Clough

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

The market is very large and I can basically quantify -- the easiest manner I can quantify it is by just comparing 2 of the companies. National Grid, we've talked about at length, has 70 of the devices roughly. I think 69 actually now operating. I think they're quite happy with. National Grid is a 16,000-kilometer pipeline and they need a total of 390 devices to operate their entire system remotely. If you look at Kinder-Morgan, by comparison, Kinder-Morgan has 82,000 miles of pipeline and over 3,900 different metering and compressor stations. So it's roughly 10x the size of National Grid and needs roughly 10x the systems to monitor its pipeline. So again -- and that's one operator in North America albeit the largest in North America, but still one operator of over 200 operators. So the opportunity is quite large and I think that's kind of what's attracted GE to take a real good look at it and to do what we're doing now, which is preparing joint presentations for some of the larger pipeline companies in North America. Does that answer your question?

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

It does. And -- I mean just right now what Kinder-Morgan would be doing or what they'd be looking to replace is just -- is basically doing this manually? I mean, is that...

William J. Clough

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

No, no. No, they have computer systems that do monitor the pipeline and there's no doubt that they have systems that are working. The difference is, I'm trying to be clear as I understand it, these big companies retrofit their IT. They just do it because their IT becomes obsolete. And what -- what we would allow them to do in combination with GE's intelligent platform group is upgrade to a system that we've talked about the past is much more dynamic, would allow them in to, in essence, control valves, diagnose problems remotely as opposed to sending a technician out there every time they have an issue at a pump station or a metering skid. And so again, it just gives them a faster, better, more efficient method of controlling their own pipeline. And I think the advantage that they will see, as National Grid has seen, is proprietary. They're not renting it from somebody or leasing it from somebody. It's based on their own server system with their own passwords, with their own codes, with their own security and literally accessible to as many iPads or smartphones or computers as they wish without licensing or other requirements that current systems need.

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

Right. Okay and that's helpful. And maybe just sticking with IRIS. Any update on the RFP that National Grid is working towards? Is

that still something that potentially gets introduced in late '14 and is more of a 2015 opportunity for you?

William J. Clough

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

I think that's the timing. I really think that's valid timing. What National Grid got tied up in is RIO initiative that they had as we've talked about in the past. We've been told by them that they've now resolved, that they're actually moving forward. We've actually had, at the very highest levels, some really nice apologies and emails sent regarding that. And they tell us that they're expecting to get that RFP out any time now. And the advantage we have now, because of their recent announcement, the one we published, is even if they decide to give the civil work to what they call a Tier 1 contract or one of their big contractors, those contractors will be required to use our system. So in essence, we'll be providing them systems and allowing them to put them in, which is fine for us because obviously the higher margin work is providing the systems. So we expect to see that sometime late '14 with the installations beginning in '15.

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

Okay. That's great. Maybe just turning to VE Pro, you gave good details there about how that opportunity is developing. Can you just remind me, is that also going to go through distributors or is that more direct through Orbital?

William J. Clough

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

Both, distributors and direct. That technology is much more broadly applicable across the pipeline system. So -- but we are giving those to distributors as well. So we're doing both.

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

Okay. All right. Maybe last one for me. Just turning to power supplies and component. I know second quarter is typically your strongest quarter, but this one was -- I guess, I mean, well ahead of even last year. So any clarity? I mean was that driven by any new product releases or things that move that number and how should we think about that for the remainder of the year?

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

I'll take it from Bill. That's driven by a number of factors, one being we introduced a little over 800 products in 2013 that are starting to take hold both through distribution and reaching customers on a direct level. And then we're continuing to see growth through our distribution channel at both Digi-Key and Future, which is going very, very well on both fronts. So those are kind of the biggest growth drivers. And then on top of that, we're winning other customers at the direct level as well. But those key items, the new products and the distribution segment growth are the big drivers there.

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

But typical -- I mean typical seasonality for the remainder of the year should still be the expectation?

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

Yes. That's what we would expect to see as well.

Operator

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

Joseph A. Maxa

Dougherty & Company LLC, Research Division

Just want to clarify on the IRIS with National Grid, they're going to use your software for all 390 locations. You've talked before \$150,000 roughly if you install it. What should we be thinking about if it does go to a Tier 1 contractor as far as the installation piece?

William J. Clough

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

No, that doesn't include installation. The GBP 100,000 is for the unit that we build form them, that's the kiosk and that includes the GE, hardware and our software. We build the entire kiosk. Installation is a separate component of that. That would be civil work and we report that even separately. So now the GBP 100,000, which is what you're talking about, roughly \$180,000, but GBP 100,000 is just for the kiosks. So that include -- and we would just still be building that. We'd be building the kiosk and delivering those if it were a Tier 1 contractor -- to that Tier 1 who would be literally laying cement, digging ditches, doing all the civil work that's involved in putting the project together, but that's not included in the GBP 100,000.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

I see, okay. And so you are going to get all those 300 plus when that RFP comes out or when that gets issued. And I guess, you already answered the question, probably 2015 timeframe?

William J. Clough

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

Yes. And I'll say -- I mean, you saw the press release with the quote from National Grid. So I mean the RFP hasn't come out, but it's our understanding it's going to come out with our system designated as the system of choice.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

And do you have any type of -- I mean it sounds like there's really no competition. Is that correct?

William J. Clough

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

They're very happy with what they've seen. We've already set up their server system. So they -- there's nothing else on their server system and really nothing else that they're looking at.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

And then on the Snam Rete piece with the GasPT2, it sounds like you do have a potential competitor with the gas chromatographs that could win this or what does the competition look like for that project?

William J. Clough

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

No, there's no competition. The gas chromatograph is simply the requirement of their regulatory agency is our device be tested against the gas chromatograph. So the test involves 6 of our units put throughout Italy at different portions of their gas system, basically to get different gasses involved. And we sat our device right next to a gas chromatograph and the 2 were compared. And that was just for testing purposes. The fact is what they want to do is put our device into a position where there will be no

gas chromatograph on these 1,500 offtakes where there are no metering devices at all currently. What they don't want to do is put a gas chromatograph out there because of the associated maintenance and the carrier gas and calibration gas and all the other issues. They want something very simple, very basic that will provide their customers, I think we've talked about this, with 2 a day gas quality analysis. And that's what we can do for them. So there's no competition and they're still looking at no other technology, but the regulatory agency requires this test compared to a gas chromatograph.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

So the options are use your products or they're not -- or use nothing?

William J. Clough

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

They're using nothing now, which is not working. The regulatory is demanding that they use something. And at this point, they're only testing our devices. They haven't -- they did start out originally with, I think, 4, 5 technologies they were looking at. Really the same technologies we've seen repeatedly and every one of them failed for some reason. They were too complicated, they weren't accurate enough. For whatever reason, they all failed. Ours is now the only system that's been taken to this final stage of field trial with -- that have just been completed. So at this point, we're pretty confident about the fact that we're the only game in town that they've looked at.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

And do you still -- anticipation as far as when they need to be installed is by the middle of next year?

William J. Clough

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

Middle of 2015, that's the regulatory requirement, correct.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

Okay. And I wanted to ask on the Orbital side. I mean you threw out a number, I missed it, on sales of the VE technology, did you give a number of -- a dollar amount?

William J. Clough

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

\$538,000.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

And that was total of the VE?

William J. Clough

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

For the quarter, correct.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

Okay. And -- okay, so I was just wondering if that technology upgrade at National Grid, it sounds like that had some negative impact on the quarter on your sales. And you expect what that was over in Q2 and starting all Q3 or you're still going to have some lingering impacting into Q3 on that side?

William J. Clough

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

Yes, they got set back a year project. So we'll certainly see some impact on that. Although, we have seen a dramatic increase in their biomethane skids, which are a big project for us. They're more traditional metering skids. But they are -- I think we're some 200% of ahead of where we thought it would be this year in those skids. They're pretty big projects. I think they're somewhere around \$500,000 or \$600,000 a piece, the skids, and we've got, I think, 7 or 8 of them right now in process. So they are a big project for us as they are moving faster than they anticipated. But there are other projects like IRIS that they have not moved forward on, that we're anticipating movement now towards the end of this year.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

So would you expect your revenue in that segment, excluding the gas product, to grow in Q3 from Q2 and Q4?

William J. Clough

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

I think I would say it's going to be flat. I mean -- I don't -- they're still getting their act together and they're still a government or quasi governmental agency and that's going to -- things just take them time. So I would say to be conservative that we'd be looking at flat to -- growth throughout the rest of the year in that contract area.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

Okay. And lastly, I'll just ask, any update on the much talked about GasPTi with GE?

William J. Clough

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

We went through a third engine test last month. It went well and we're still moving forward. Again, I -- there's not much I can say because of the NDA, but we're still working with them. They're still very positive about the technology and the moment I can announce them, I will.

Operator

Our next question comes from the line of Andrew D'Silva with Merriman Capital.

Andrew D'Silva

Merriman Capital, Inc., Research Division

You guys said you placed orders for 21 GasPT devices during 2014. I thought last quarter you said you placed 33 units, and then also can you kind of let us get sense of what the number of actual revenue generating units was out of those 21 units that you mentioned?

William J. Clough

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

Yes, let me clarify that, Andrew, that's a good question. The report that we did last time included, and I think we went round and

round about this, included reported sales as inventory to distributors and reps. And to avoid any confusion, we've changed our reporting. What we've reported now is actual orders from end users. People are buying the device and taking delivery. That's what we're reporting. So we're not including any -- that 21 doesn't include any inventory for reps or any sell-throughs that we don't recognize until they sell. We took all of that out. We're just going to report it very cleanly. These are the actual orders from end-users. And I can tell you that this quarter, we installed 6, which we recognize revenue on. Those 6 were analyzers only, I believe. So the revenue was at the 20,000 MSRP. Of the 21, about 60% are GasPTi that they've ordered, which are the larger units, the \$55,000 units and about 40% are the analyzer only, which is a \$20,000 unit. But again, the 21 are actual end-user units, not the inventory units by reps, not any of the other units that seem to confuse the issue. So these are actual end-user orders. Does that answer your question?

Andrew D'Silva

Merriman Capital, Inc., Research Division

Right. So these are tests, kind of like the initial 6 that went out to Snam Rete?

William J. Clough

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

Those 6 are included in that. There's 4, I think, that are in with Dominion Energy. There are a number that went to National Grid. I think there's 2 or 3 that went to Scotia. So there's a fairly broad customer base, but yes, those are end-users that are actually taking delivery on the product and actually not holding inventory or anything else.

Andrew D'Silva

Merriman Capital, Inc., Research Division

Okay. And then as far as your dealer network goes, you're up to 33 now, almost hitting your goal of getting close to 40. I mean how are you seeing that evolve? Do you feel like adoption through your dealer networks, customer base could take place in a relatively short period of time or do you still think this is going to be a pretty long process with a lot of testing that takes place first and maybe a year or so before we see an actual dealer uptick in revenues, excluding Snam Rete?

William J. Clough

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

I don't think so. I think that we're very close on a number of different areas. I can tell you that we're very close with Ives on a couple of different projects, probably the primary one being Dominion, which is looking to, now that they've tested on their compressor, their twostroke compressors, are looking to purchase a good sum of units, if things workout right. We've got now some pretty good penetration by a Japanese distributor that we're about to sign, Itochu, and they have some pretty good forecasting done for us. And then we've signed now 2 Chinese distributors Real Flow [ph] and one other and that market could be, again, quite immense. And I think that I do think for me to say it's going to be a short time, I don't know that. What I do know is what every -- almost every distributor I've talked to has told me and that is once 1 or 2 big companies, like a Snam Rete, like an ETP, like a Dominion, adopts the technology, that sales will become much faster and much easier. The problem with the industry, the fact with the industry is that no one wants to be the first to do anything new. There's just -- there really is no reason. They've got a working technology, why change it and take that risk? But once that happens, I think we will see a much more dramatic and a much faster adoption. That's why we're pushing so hard with GE, with Snam Rete with some of the others of Dominion, we're pushing very hard because we feel that once that adoption occurs, you'll see a fairly quick update of the device because it is faster, it is cheaper, it is more efficient and it is less maintenance. I mean there's no 2 ways about all of that. It's just a matter of getting the industry to adopt it.

Andrew D'Silva

Merriman Capital, Inc., Research Division

Okay, okay. That's fair enough. And then just 2 more questions. With Snam Rete, what is the absolute last they'd be able to commence a full scale install of GasPT2 and still be complying with the \$80 million euro bond that they have out? Doesn't it expire in the middle of '15 which would imply that the latest they could actually start getting orders from you would be either

late this year or very early in 2015, correct?

William J. Clough

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

We could supply them with 1,500 units. Probably, it would take us somewhere around 12 to 15 weeks to supply those units. And the installation is quite simple. I mean the installation, and again, I think, we've covered this before, is less than an hour. So you can install them very quickly. But I -- my push to them has been because we've been quite emphatic about them than we want to have some advanced knowledge so we can start ramping up manufacturing. So I think that again I'm guardedly optimistic, we're going to see some more restarting this year and more importantly to me, we're going to see some order forecast that I can actually publish where they're going to tell us a rollout schedule. That's what I'm looking for more than anything else. But I think to answer you question, they could go into 2015 and still get everything done in a timely fashion. But they're pushing up against a tough deadline if they go much fast, January and February, but they could go into '15.

Andrew D'Silva

Merriman Capital, Inc., Research Division

Yes, and being Italy, I mean, it might be likely. So -- and then, I guess, my last question, the electromechanical segment had a substantial uptick, last year kind of a similar second quarter uptick. Do you think that this is the natural lumpiness that we'll see in the rest of the years, quarters will be a little bit lower or is this kind of the new rate and we should model growth off of that?

William J. Clough

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

Kind of similar question with -- Eric asked earlier. No, it's going to be consistent with what you've seen in the past is our expectation. Q2 was a fantastic quarter this year and it was last year as well. We're looking at Q3 being more consistent with the prior year. And so that's -- I would kind of maintain the model that you've probably built already.

Operator

Our next question comes from the line of Evan Richert with Sidoti & Company.

Evan Richert

Sidoti & Company, Inc.

A lot of my questions have been asked, but could you just touch on what the timeline would be for -- how you're going to be marketing IRIS?

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, we're already marketing IRIS. I mean we're doing it in Europe and we're doing it throughout the continent. Our time line with GE is we have actually sat down with them in Houston now twice. We have their marketing group and our marketing group putting together now a presentation, a slide presentation. I believe that our next step is to meet again in Houston in next couple of weeks, go over that marketing presentation and then identify 3 or 4 different targets that are customers. They're going to provide a couple, we're going to provide a couple and really go after those 3 or 4 big companies. And frankly, the companies we're looking at are our energy transfer partners, Spectra Energy, Kinder-Morgan and I think Williams Pipeline. They are the biggest in the country. And I think at that point, we're going to leverage our relationship with GE to get in the door. They're the ones who are going to get us in the door, and then we're going to go with their sales and marketing group. We expect to do that before the end of the year. In fact, we're scheduled to be at a partner seminar with GE in Orlando in October by this year. And I would hope to be -- having meetings scheduled around that October meeting. So we're planning to, again, roll this out as soon as we can get the joint presentations done and set up the way we and GE want it.

Evan Richert

Sidoti & Company, Inc.

Okay, that's helpful. And then, can you just clarify, this is the same unit of GE that would be responsible for purchases on the turbine side or is that separate?

William J. Clough

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

Probably separate. This is their intelligent platform group, which works with more of an IT-based sales group, the turbine group is GE energy -- sorry, GE aero, which is under their water and power division.

Evan Richert

Sidoti & Company, Inc.

Okay. And then are you -- as far as the turbine side goes, are you currently marketing with any other customers outside of GE or is that your main focus right now?

William J. Clough

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

No. We're also in discussions with Siemens. We went, and I think I've talked about this, we went into discussions with them after they bought the Rolls-Royce energy division. And we are still winning test results from devices that we're getting to Mitsubishi heavy industry. We have been certified as a preferred vendor for Mitsubishi and we're waiting to get those devices out the door and installed. We understand that they're going to be going on 2 turbines in Thailand and as soon as those go out, I'll be making a press release to inform everybody.

Evan Richert

Sidoti & Company, Inc.

Okay, great. And then, can you just talk on -- your outlook on -- if there's still -- you still see some cross selling opportunity as far as IRIS and GasPT, and what that would look like?

William J. Clough

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

I don't know about cross-selling opportunities. I think what happens when you start getting a technology into the industry and it starts getting traction, you just become more and more credible in the industry. So I think there will be cross selling in the sense that we have 2 technologies as they start to develop. One will support the other, because, again, you get the credibility. We are not, at this point, looking to put IRIS with the distributors of the GasPT or the VE Probe. The GasPT and VE Probe are generally much more applicable to a different division within the pipeline company. They are hardware that actually does metering, that actually does sampling, that actually does the thermowell function, as opposed to the IRIS technology is much more IT-based, which, in most pipeline companies, has a different procurement system, different management team and really a different market to attack. So I don't think there's so much cross-selling as you'll just -- one will build credibility for the other.

Evan Richert

Sidoti & Company, Inc.

Okay, great. And then as far as the pipeline customers go, I mean, obviously, you've had a number of them testing the GasPT for a while now. You're just kind of waiting for someone to make the first order, I guess, is how you've explained it. Is there anyone else out there that you're looking to target that hasn't really seen this yet or are you just kind of waiting for the same core group of pipelines to push an order through?

William J. Clough

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

Officer of CUI

We've attacked everybody that we're interested in at this point. And we're not just waiting, believe me. We're pushing as hard as we can at various different levels. We have a number of different strategies, both with our distributors and directly with our salespeople and with management and others. But we're really working on getting one of these companies, bigger companies, to adopt the technology. And again, we think that once that happens, it will simply be a matter of then almost dominoes, where the technology will become quite the standard within the industry. But again, it's -- we have attacked those people that we believe are most susceptible to this. On the other hand, there are some smaller sales being made, obviously. We've had sales to Scotia. We've had sales to Botash. We had sales to Gasunie. So there are some smaller sales being made, but I think really our push right now is that probably 5 or 6 big customers who are really pushing to land and that's where we think the credibility will come.

Operator

Our next question comes from the line of Marco Rodriguez with Stonegate Securities.

Marco Rodriguez

Stonegate Securities Inc., Research Division

Most of my questions have been asked and answered. Just a couple of real quick clarification items. On the GasPT unit sales, again, for Q2, how many were actually booked unit-wise for revenue?

William J. Clough

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

Actually 6 more, 6 additional.

Marco Rodriguez

Stonegate Securities Inc., Research Division

So there was a total of 12 for the entire year, so 6 for Q1?

William J. Clough

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

Correct -- no, 7 for Q1. 7 for Q1, 6 for Q2.

Marco Rodriguez

Stonegate Securities Inc., Research Division

How does that compare year-over-year?

Unknown Executive

Last year, it would have been not very many at all.

William J. Clough

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

Yes. I think last year, they were all test units. I don't know. Well, no, that's not true because we did some for National Grid. I don't have that figure off the top, sorry.

Marco Rodriguez

Stonegate Securities Inc., Research Division

Okay. And then on the VE technology sales that you have in your presentation, the 118 units sold. Are those actually booked into

revenue in Q2?

William J. Clough

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

Sorry, could you repeat that?

Marco Rodriguez

Stonegate Securities Inc., Research Division

The VE technology sales you have in the presentation, the 118 units, were those booked as revenue in Q2?

William J. Clough

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

Yes, \$538,000, correct.

Marco Rodriguez

Stonegate Securities Inc., Research Division

Okay. And how does that compare sequentially from Q1?

William J. Clough

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

That was -- I don't believe we had many sold at all in Q1. Again, we didn't break them out that way but I -- the majority of them were Q2 sales.

Operator

Our next question comes from the line of Jim Kennedy with Marathon Capital.

James G. Kennedy

Marathon Capital Management, LLC

I wanted to drill down on a couple of items. Number one, on the distributor network, and correct my math if I'm wrong and maybe suggestion as to what would be good going forward, you got 33 distributors signed up. Bill, how many PTs do these folks usually take? I mean, do they usually take 1 or 2, are they required to take a couple to begin with?

William J. Clough

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

They usually -- they're required to take 1 or 2 depending on the size just for demonstration purposes. And then there is a requirement, depending on the size of the territory that they're covering, for them to commit to a number of inventory units. And those are the ones that we're just not reporting at this point, because they're not revenue, they won't be revenue until they actually are selling. But there is. And it depends really on the size of the territory that they're involved in, and whether or not it's an exclusive or non-exclusive agreement. The biggest one, for example, is the benchmark enhancement we've made first quarter, which was all of Canada and they were required to take, I think, 28 units as inventory. So again, it depends on the size of the area and whether or not it's an exclusive agreement or not.

James G. Kennedy

Marathon Capital Management, LLC

I think a probably a useful number, if you guys can get it from the distributors, would be how many units are actually in

distributors' hands and then how many of those units are in trials. In other words, versus sitting on the shelf at the distributor. I know when I visited Ives a little while ago that they were quite excited about trying to get these things into the field, into trials. And it would be nice to know if we've got, say, 50 or 100 units out there. If 50 or 60 of the 100 are in trials, that tells us something. If only 10 are in trials, that tell us something else.

William J. Clough

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

We certainly could provide that number. I don't have it off the top, but that's something we'll definitely do.

James G. Kennedy

Marathon Capital Management, LLC

Okay. Yes, just give us a little more insight in the pipeline. Secondly, I think I heard you correctly that with the National Grid installations, you're going to be on the GE intelligent platform. Did I heard you say correctly that that's going to be the hardware component and you are the software component? How big a portion of that software component are you for that system?

William J. Clough

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

We are the entire software component. We actually built a ground-up software solution for managing the pipeline. It's the entire package from nuts to bolts. And we are using the GE intelligent platform setup hardware because they were the only ones who would, in essence, modify their source code and expand the RAM that we needed, but it is entirely our software.

James G. Kennedy

Marathon Capital Management, LLC

Okay. And in terms of competitors when you go out there, I don't know if National Grid looked at anybody else, but when you get into these other opportunities, have you seen a head-to-head competitor yet with something similar, or are you alone in terms of what this system can do on the GE platform?

William J. Clough

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

Yes, we're alone in not only what it can do, but how it does it. Almost -- not almost without -- all of the other systems that are in use today by the oil and gas companies are proprietary systems that are leased from vendors who provide annual updates, who provide -- or who have to pay licensing fees to who generally maintain the systems on their servers, they literally are set up much like a SAP or Oracle system, third-party provider. Ours is the only system out there right now that really allows the gas pipeline company to own its own system. We've set it up on their server, it's proprietary, it's web-based, so they can get to it through the Internet as opposed to going through a third-party system. So it is quite unique in that manner. And that's really kind of, I think, the advantage we have in that -- the pipeline companies like that. They like to have their own proprietary system. They don't like to pay the fees associated with licensing and if they had a technology expert or they a had an engineer, they have to add another licensed position. They have to license each computer. Generally speaking, the only way they can access it is from a computer whereas we allow them to use a tablet or even a smartphone. It's really up to them how they set it up. So again, in that sense, it is pretty unique and we haven't seen anything comparable at this point.

James G. Kennedy

Marathon Capital Management, LLC

So given that National Grid is going to use you across their entire system. Is that the likelihood of the other systems where they're going to want one system in place for the entire -- for their entire grid or system or might we see a mix and match type of approach by some of these folks?

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

You could see that. I mean I think, for example, frankly, one of the things we're targeting right now, you may have seen recently that Energy Transfer Partners has announced that they're building a 3,000-mile addition to their pipeline. And we've -- we're actually targeting that 3,000 miles to roll this out and show them what it will do in that new pipeline. We're thinking the same thing with Buckeye Energy. We've just announced an 8,000-mile increase in their pipeline. So again, it -- they could be -- it could be a mix and match. Although we think once it's out there and they see how effective and dynamic it is, it's something they'll tend to go to. But National Grid is doing a mix and match right now. They have an old system that is quite antiquated and frankly, not very dynamic on the one hand and they have 70, almost 70 sites that are hooked into our systems. So it can be done and I think, yes, you will see that happen.

James G. Kennedy

Marathon Capital Management, LLC

Is this an ROI sale, Bill, or is it a combination of replacing obsolete systems or is it a combination of needing new technology because of what's coming through the pipeline, what is the incentive for that operator to put this in?

William J. Clough

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

Yes, twofold. One is, and I think there's a white paper out, that GE put out is publicly available, white paper that talked about gas and their natural gas operation for the next few years until 2025. And what they've said is the big requirement of natural gas system to become the energy of choice is really control of the asset. And control of the asset is what amounts to remote metering, remote flow control, really doing everything remotely and having very dynamic systems to be able to do that. And that really is where the -- that's where the industry is going. And so of course, part of that is if you're going to do that is you've got to have the ability to maintain those systems. And right now it's a guy in a truck with a toolkit, goes out there and figures out what's wrong and replaces whatever is wrong. That's really antiquated and National Grid has certainly seen and I think other pipeline companies will as well. What IRIS gives in the opportunity to do is truly, dynamically, remotely control those valves, really diagnose what the problems are, treat them in a reasonable efficient manner where guys can go out during the workday with the proper tools, with the proper replacement parts and fix whatever is wrong. So again, I think part of the whole modernization of the system. So I think it's not so much a return on investment as it is really just the natural obsolescence of computer and electronic systems generally and new technology allowing people to do things they haven't been able to do before. And in the case of gas companies, it is a change for them.

James G. Kennedy

Marathon Capital Management, LLC

So Bill, just to kind of switch gears very quickly. You had mentioned the cross-selling opportunities. Am I correct that each of these pumping stations, in theory, is a compressor?

William J. Clough

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

Yes. Each pumping station would be a compressor, correct.

James G. Kennedy

Marathon Capital Management, LLC

All right. And can I put the PT in front of that compressor, does it make economic sense?

William J. Clough

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

Yes. It's really -- in fact, that's what Dominion is looking at right now is that it makes it a much more efficient operation. And

obviously, I think where you're headed next is does that PT then integrate with the IRIS system? And yes, your answer to your question is, yes. In fact, one of the issues that Snam Rete is so impressed about is that we can, in fact, interface directly with their flow computers, which will be able to make their billing automated, which it currently is not. Currently, their billing is done by a staff or, I don't know, 25 or 30 people who are, every month, generating hand -- in essence, hand-generated bills to 7,500 customers. The bottom line is the fact that our GasPT device is a truly digital device that interfaces with the digital flowmeter would allow them to automate that system. And yes, it would certainly make sense to have a compressor station.

James G. Kennedy

Marathon Capital Management, LLC

So we should think of the turbine market as separate from the compressor market for PT potential?

William J. Clough

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

Yes, yes. Because the compressor includes non-turbine compressors. In fact, what Dominion's testing it on is these twostroke - big twostroke engines that they use for compression. But they're operated by natural gas. There are the same concerns that you have with the turbine that they're getting improper gas mixture, improper fuel air mixture and we allow them to operate much more efficiently. That's what Dominion is looking at.

James G. Kennedy

Marathon Capital Management, LLC

Okay. Do you all think you could put a link on your website to that white paper you referenced?

William J. Clough

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

I'll do that. Yes, I can do that.

James G. Kennedy

Marathon Capital Management, LLC

Okay. And then switching gears again to Snam Rete. When you mentioned that you were required to compare, I guess, and contrast the PT with the gas chromatograph, are -- is your PT providing all of the information that they will need? I know the gas chromatograph typically provides more, but are you providing all of the information that they're going to need?

William J. Clough

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

Yes, we are because -- realize what they're using the device for is billing. So it's calculation of BTUs. So what we're providing is the calorific [ph] value. That's the big issue is what's the energy content of the gas, that's the component, along with flow, that also in the BTUs.

James G. Kennedy

Marathon Capital Management, LLC

Okay. And then are there any Italian manufacturers of gas chromatographs?

William J. Clough

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

I don't believe so. That's a good question but I don't think so. I think if you look at Emerson, Honeywell -- the big ones are

Emerson, Honeywell, ABB German, Siemens German, the Japanese right, the big Japanese manufacturers. I don't think -- no, there are no Italian manufacturers.

Operator

[Operator Instructions] Our next question comes from the line of Morgan Frank with Manchester Management.

Morgan C. Frank

Sorry, I tried to get out of the queue. My questions have been answered.

Operator And I'm not showing any further questions at this time. This does conclude our Q&A session. Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone, have a good day.

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