

CUI Global, Inc. NasdaqCM:CUI

FQ3 2014 Earnings Call Transcripts

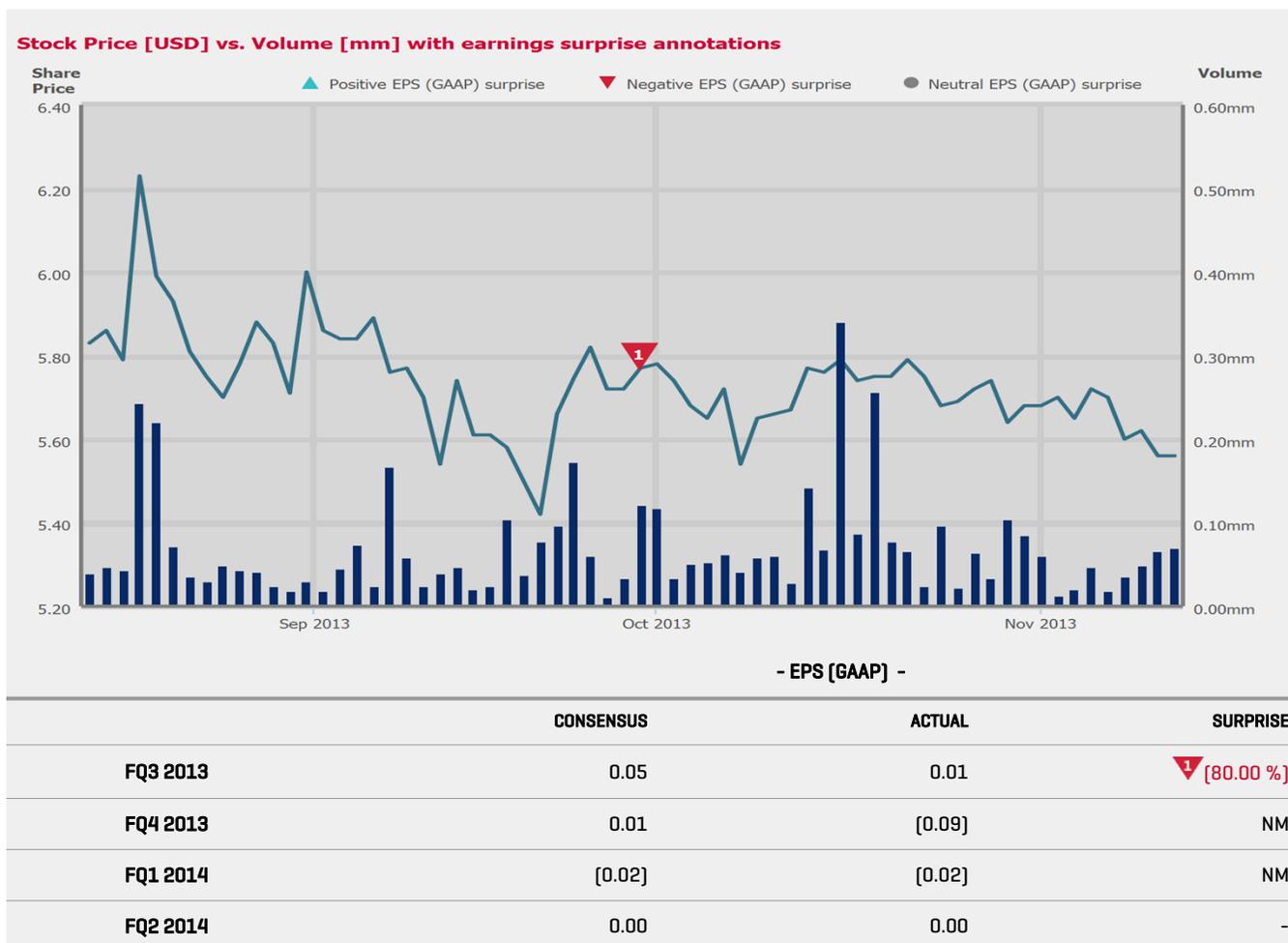
Tuesday, November 11, 2014 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2014-			-FQ4 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.01	[0.02]	NM	0.02	0.04	0.50
Revenue (mm)	18.51	21.38	▲15.51	18.97	73.60	102.58

Currency: USD

Consensus as of Nov-06-2014 2:20 PM GMT



Call Participants

EXECUTIVES

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Casey Stegman

William John Nasgovitz
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Daniel N. Ford

*Chief Financial Officer and Principal
Accounting Officer*

William J. Clough

*Interim Chairman, Chief Executive
Officer, President, General Counsel,
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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the CUI Global, Inc. Third Quarter 2014 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded. I'd now like to turn the conference over to your host for today, Casey Stegman. You may begin.

Casey Stegman

Thank you, and good morning. Welcome to the CUI Global Third Quarter Earnings Conference Call for 2014. We appreciate you joining us today. With me on the call is 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 third quarter as well as 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 that was issued yesterday. If you have not, it can be accessed at the company's website at www.cuiglobal.com.

Today, during the course of this presentation, we will be directing your attention to a series of slides. Those slides can be accessed during this call from the link in the press release that went out yesterday 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 27A of the Securities Act of 1933 as amended and Section 21E of the Securities and Exchange Act of 1934 as amended. Such statements are subject to risks 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, 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 of liability -- 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 those and other factors, which could materially affect the company and its ongoing -- excuse me, 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. 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. 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 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 things we are currently working on at CUI, and then we'll open the call up for Q&A.

Let me begin by saying that I was very pleased with our performance for the third quarter of 2014 and, in particular, our top line revenue growth, as we recorded \$21.4 million in revenue, a 24% increase, as compared to the same period last year. For the 9 months ended September 30, 2014, our revenues were \$57.5 million, a 27% increase, as compared to the \$45.4 million in revenues for the same period in 2013. Our gross profit margin for the quarter decreased slightly to 37% from 38%, but the gross profit margin for the 9 months period ending September 30, 2014, increased to 40% versus 38% in 2013. Adjusted EBITDA for the quarter was \$1.8 million or about \$0.09 per share.

On a year-to-date basis, we saw increases in revenue in both segments compared to 2013. The power and electro-mechanical segment revenues were \$12.9 million in Q3, which is up 15% increase, as compared to \$11.2 million in the prior year comparable quarter. Within the gas segment, we recognized \$8.4 million in revenue as compared with \$6 million in revenue in the prior year - I'm sorry, in the prior comparable quarter, an increase of 40%. Growth in the power and electro-mechanical segment was related to continued market penetration of its expanding product portfolio as well as growth within the distribution channels. Revenue growth in our natural gas energy segment was driven primarily by an influx of Biomethane projects in the U.K., as the British government continues to incentivize the production of renewable energy.

As I alluded to in our press release, the third quarter was an eventful quarter for CUI Global. I will review each of these items in more detail after a discussion of our financials.

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 to now give a financial overview of the third quarter for 2014. As Bill mentioned, the company's revenues were \$21.4 million for the quarter, up 24% from revenues of \$17.2 million in the third quarter of 2013. The increase in revenues for the quarter is attributable to approximately \$1.8 million of growth within the power and electro-mechanical segment and \$2.4 million of growth in our gas segment. The year-to-date revenues of \$57.5 million represents a 27% increase over the prior year comparable period.

The cost of revenues for the quarter was \$13.4 million versus \$10.7 million for the same quarter in 2013. The cost of revenue for the 9 months of 2014 was \$34.8 million versus \$27.9 million in 2013. As a percentage of sales, the cost of revenue increased slightly to 63% for Q3 2014 as compared with 62% in Q3 2013. For the 9 months ended, the cost of revenues as a percentage of sales decreased to 61% from 62% during the prior year comparative period.

At September 30, 2014, the power and electro-mechanical segment held an unaudited backlog of orders of \$12.4 million, and the gas segment held an unaudited backlog of orders of \$18.8 million.

The EBITDA for the quarter was \$839,000 or \$0.04 per share versus \$1.5 million or \$0.07 per share for the same period in 2013. EBITDA for the 9 months ended September 30 was \$2.4 million or \$0.12 per share as compared with \$2.9 million or \$0.17 per share during 2013. The adjusted EBITDA for the quarter was \$1.8 million or \$0.09 per share, which compares with \$1.6 million or \$0.08 in the third quarter of 2013. The 9 months adjusted EBITDA for the period ended September 30 was \$4 million or \$0.19 per share as compared with \$3.4 million or \$0.20 per share during 2013.

Gross profit for the quarter was 37% or \$8 million as compared to 38% or \$6.5 million in the prior year quarter. Gross profit for the 9 months ended was 40% or \$22.7 million as compared with 38% and \$17.5 million in 2013. Within the operating segments, the power and electro-mechanical segment generated quarterly and year-to-date gross profit margins of 40%, while the gas segment generated a 34% quarterly gross profit margin and year-to-date gross profit margin of 39% at September 30.

SG&A expenses increased to \$6.9 million for the quarter compared to \$5 million for the same period in 2013. This increase is primarily a result of ongoing activities for each new customers, promote new product lines, new product introductions as well as the overall growth in expenses in relation to the revenue growth during the quarter. Included in this increase is \$738,000 of equity compensation expense to a consultant for completed strategic consulting services regarding the testing and demonstration of the GasPT technology.

As a percentage of revenue, SG&A increased in the third quarter to 32% as compared to 29% in the prior year period. For the 9 months ended September 30, 2014, SG&A expenses were \$19.6 million versus \$14.2 million during the first 9 months of 2013. The year-to-date increase is a result of the addition of SG&A activities of Orbital Gas Systems, which was acquired in April 2013 and accounted for approximately \$2 million in additional expenses during the first quarter of 2014. Additional increases during the year-to-date period are consistent with those increases discussed for the quarterly period, and again, that includes \$738,000 of equity competition expense relevant to the consultant services discussed previously. SG&A as a percentage of total revenue increased slightly to 34% for the 9 months ended as compared to 31% in 2013.

The company had positive cash flow from operating activities of approximately \$1.2 million during the 9 months ended versus cash flow provided by operating activities of approximately \$2.4 million for the same period in 2013. The change in cash from operations is primarily the result of increases in assets and reduction in billings in excess of costs from operating activities, offset by the net income earned before noncash expenses.

The company had a net loss of \$349,000 or \$0.02 per share for the quarter ended September 30, 2014, as compared to a net profit of \$737,000 or \$0.04 per share for the quarter ended 2013. For the 9 months ended 2014, the company had a net loss of \$903,000 or \$0.04 per share versus net income of \$712,000 in the same period of 2013. The net loss reported for both the quarter and 9 months ended September 30, 2014, as compared to the prior year period are primarily the result of consistent increases for SG&A related to the increased revenue in the selling and marketing efforts associated with introducing new technologies and Orbital to the global marketplace, including the previously discussed equity compensation expense paid to a strategic consultant for gas segment-related services.

Adjusted net income, which represents the net income or loss plus the amortization expense of the intangible assets acquired via the 2013 Orbital acquisition plus the expense associated with the stock options and notes issued for compensation and services for the quarter, was approximately \$1.4 million or \$0.07 per share in 2014 as compared with \$1.6 million or \$0.08 per share in 2013. For the 9 months ended September 30, 2014, adjusted net income was \$3 million or \$0.14 per share versus \$2.6 million or \$0.15 per share in 2013.

At September 30, 2014, CUI Global held cash and cash equivalents of \$17.1 million and short-term investments of \$10.4 million. Also at September 30, 2014, the company had 20,742,481 common shares outstanding.

And 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've been working on over the past year as well as give you some additional color on some of the key highlights from our third quarter.

In September, we announced the signing of a distribution agreement between our wholly owned subsidiary, Orbital Gas Systems, and Branom Instrument Company, a natural gas equipment distributor company based in Seattle, Washington. The agreement calls for distribution of CUI Global's patented natural gas technology, including the GasPT and the GasPTi and its VE technology. Specifically, the agreement gives Branom exclusive distribution rights for sale of the devices in northwestern United States, including Washington, Oregon, Idaho and certain counties within Western Montana. We are very excited about this partnership, which we feel will have a significant impact on the North American natural gas industry going forward.

Additionally, last month, CUI was named as one of 3 founding members of the Architects of Modern Power, a new power industry consortium. The formation of this group, which includes 2 other globally recognized industry leaders, represents a tremendous opportunity for CUI Inc. and the other founding members who have a significant impact on the adoption of digital power technology. We are extremely proud to be a founding member of this exciting organization, and we look forward to updating you on our progress as we move forward.

We noted in yesterday's press release that our Board of Directors has authorized a 1-year program to repurchase up to an aggregate \$3 million of the company's common stock, which will be effective immediately. The amount and timing of any such repurchase will be determined by the company based on its financial condition, business opportunities and the market conditions at the time. It is our belief that there is at times a disconnect between the trading level of our stock and the significant near-term business opportunity set in front of the company. We, as a management team, along with our Board of Directors, are firmly committed to maximizing shareholder value and, therefore, have authorized this program to opportunistically repurchase shares of CUI stock in the public market as and when appropriate.

Now let me give you an update on some of the other areas. We have now signed up 38 new distributors in Europe, Asia and North America. In addition, last quarter, we announced the fact that National Grid had selected our IRIS technology for use in remotely controlling its entire grid. With that in mind, we recently attended the GE Intelligent Platforms 2014 User Summit in Orlando,

Florida, where we met with GE's Intelligent Platform Group's management team. We continue to believe that our developing relationship with the Intelligent Platform Group represents a significant step in our plan to develop a substantial distribution network for our groundbreaking technology and specifically for sales of our IRIS technology, targeting North America energy producers and transporters.

GasPT and VE technology sales remain steady as we have now delivered 26 GasPT units, have received orders for an additional 27 units to be delivered this year and have another 20 units out for bid. We are continuing to make progress with our larger GasPT opportunities, including positive discussion with Snam Rete, Dominion Compression, Energy Transfer Partners and others.

In reference to Snam Rete, specifically, as we discussed during our last call, we had successfully completed field trials with 6 units, and we're awaiting an independent report from the University of Milan. We did receive that report, and it was, as expected, quite positive. As such, we remain confident that we will receive orders from Snam Rete beginning in early 2015. In fact, all of these larger projects continue to move forward in a positive manner and are likely to be slated for 2015 deliveries.

Finally, moving to VE technology sales, we delivered an additional 18 VE sampling systems last quarter, bringing our total delivery to 51 sampling units, while we delivered an additional 101 VE thermowell applications, bringing the total thermowell deliveries to 140 units this year. Furthermore, we continue to receive inquiries and are working with numerous potential VE technology customers, including ConocoPhillips, ABB, Statoil and others. We are confident of our ability to close those deals as we're 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, I'd like to thank everyone for your continued interest and support of CUI. As I often do on these calls, I want to reiterate 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 electronic 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 and Branom Instruments in the U.S., Shinwoo F. A. in South Korea, RealFlow in Shanghai, DigiKey and Future Electronics can only enhance the credibility of our products, the viability of our technologies and, ultimately, the value to our shareholders. Now with all of that being said, let's open the floor up for questions.

Question and Answer

Operator

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

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

Maybe just real quick on Snam Rete. You gave details there. But could you just update us on kind of what the drop-dead date is in terms of the funding being put to use there? And as you think about that, is that still net 1,500-unit area? And are they still looking for just analyzers or is it the complete system?

William J. Clough

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

Yes, things have changed somewhat. The date hasn't changed. The date is mid-2015, June of 2015. They are now looking much closer at the combined units though and, in fact, have visited -- as I may have mentioned to you, they have visited the facilities in -- at National Grid and, because of that visit, became very impressed with the combined sampling and GasPT system. So they're not talking about some of the system that they roll out. It will be the combined system. They haven't defined how many or which would be -- which type. But I think they're much more interested than that -- than they once were. I don't think they truly understood the advantages of the sampling system when it was combined with the GasPT. They do now understand that. And again, they're very positive. They're very intent on moving forward. Their procurement system is simply set up to start operating first quarter. That's their timing. They told us that. So we'll see what happens. I'll be honest with you, they're a big organization. I think if they start the project moving forward and they hit a deadline, I don't see them losing money as long as they're moving forward. But we certainly expect some orders, significant orders, in the first quarter of next year because, again, they are talking about 1,500 total units.

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

Okay. Got it. That's helpful. Maybe just turning to the distributors. Some of these distributors you've had for, I guess, probably 2, 3 quarters. Just curious, traction you're seeing from those early distributors, Benchmark, Ives and some of the other ones and then what type of visibility that gives into the pipeline and making traction in that pipeline.

William J. Clough

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

Yes, we're getting some traction certainly with Ives and Dominion is a great example. They've gone into engine testing with Dominion. And Dominion is talking about as many as 200 units when they get up and running. So again, I think Ives is a great example. Benchmark is working with their only real customer, which is TransCanada. But again, I think when you're introducing new technology to the marketplace, the issue with distributors, until you actually pull it into the marketplace, is they'll go in, visit their big customers, present this exciting new technology and their customers will go, "Well, do you still sell GCs?" "Oh, yes, we do." "Okay, we'll take a GC." And that distributor is not going to fight the customer to buy something they don't want. So it's really incumbent on us as the providers of the technology to get out there and force the market to accept it, to have the customer ask the distributor. And that's what we're doing now. We're doing that in connection with conversation with ETP. We're doing that working with GE and IRIS. And so it's a push and a pull. So I think as we move forward, we'll see those distributors being much more fruitful for us as we start to see the technology being pulled into the marketplace.

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

Okay. Maybe last one for me, just turning to the power and electro-mechanical. Just, I mean, that was a very strong quarter. Just can you talk about some of the relationships there that is driving the strength? Or is it broad-based? And then how do you think about 2015 growth with Novum and Solus playing into that?

William J. Clough

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

Yes. I think the first thing I would mention is that, and we talked about this in the past, it's not a rocket ship. In other words, there are good and bad quarters. There are up and down quarters. This was an exceptionally good quarter, absolutely, for the electronics industry. And it was broad-based. It was across the entire product portfolio. Really, it had a number of different drivers, our continued relationship with Future, which is becoming more and more important to us. And as far as Novum and Solus is concerned, we're starting to see some traction develop there. This development of the AMP organization that combines us with Ericsson and the Murata out of Japan makes us, really, leaders in that digital power product division. And we're in electronica, this show right now in Germany, where we're introducing AMP and our relationship there. So I think it's going to be a big part of 2015. Again, we've talked about the fact that I think revenues on Novum and Solus won't occur until the end of 2015. And really, the ramp-up there is going to be into 2016. But again, I think the electronics end of the industry has done quite well, and we expect that to continue.

Operator

Our next question comes from the line of Joe Maxa.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

A few questions. So on the Snam Rete, did it -- maybe I heard incorrectly, but did you suggest that it could possibly go beyond middle of next year as far as the deadline, once they get started, they'll start rolling it out and we don't really know if it will be done by June or it could go longer? Is that how we should be thinking about it?

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. I've been told that it's a drop-dead date, June of 2015. But they're Italians and this is a huge, huge entity within the Italian economy. I can't imagine if they start rolling this out, and they're in the middle of rolling it out and June comes, that they're going to cut off funding for them. I don't know that. They're telling me that it's a drop-dead date, 2015. But on the other hand, let's face it, I've been dealing with them for 2.5, almost 3 years now, we've been moving forward continually, but it's the Italians and they do take their time. And I don't fault them for that. It's just simply the way they are. And again, I don't want to make it seem like I'm telling -- I'm telling you exactly what they're telling me, and that is that the drop-dead date is June of 2015. But I'm telling you, from my perspective, I have a hard time believing they would simply cut funding if these guys are up and running and installing units and June comes and goes.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

Right, right, I understand. The National Grid, do you have a sense when they'll start ordering the next round of IRIS? Have you got the RFP yet, any timing associated with those types of items?

William J. Clough

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

No. When we get that RFP, we'll put that out in a press release. We have not. What we do know is that they're real, reorganization has done now. They are focused largely right now on these Biomethane projects at the end of this year because there is a

change in the government underwriting regarding Biomethane terminals at the end of the year, as of January 1. So everybody's focused on that, quite frankly. I think that as soon as that's over with, which will be the January 1, because the tariff changes at that point, they'll get back to the big project mode. And that first big project, as I understand it, that's coming out of them is going to be for the retrofit of their IT, which would include IRIS. So I think I'd expect something the first part of the year. Again, we've talked about it in the past. It's a 90- to 120-day bid process, but we have not seen that bid yet. But I think it is coming.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

I see, okay. And a little more on the Biomethane side. That was a big chunk of the revenue in Q3. Are you anticipating that to continue in Q4 then, given the tariffs at the -- change at the January 1?

William J. Clough

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

We have a number of projects that we expect to finish in Q4. Whether they'll finish right at Q4 or not is hard to say. Frankly, we've got a load of those projects in there now. They are big projects. There are huge investments that we're making that's part of the SG&A hit that we took is just that. But again, I think we're pushing to get those done January 1. Now whether or not the money will come in and we'll see that or be able to accrue that this year, I just don't know. But they're our projects. Interestingly, we've actually now got inquiries for as many as 30 more next year, 30 more of these projects next year because there is some indication that the U.K. government will continue these tariffs. If that happens, it could be a big driver for next year as well. So again, they're big projects. We're going to try and draw as many as we can into this year, but we expect a number of them will be finished before the end of the year.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

So are these -- so how many projects, I mean, are you in now? Just give us a ballpark how big this 30 could be.

William J. Clough

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

Yes, there's 9 in progress right now. I think we had -- we finished 5, I believe, during third quarter. And there's -- I think there's -- there's either 7 or 9 sitting there right now.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

Okay. And are these -- I mean, they're clearly lower margin, and that's some of the gross margin pressure in the quarter. Is that due to maybe some lower margin passthrough revenue on some products? Or explain why these margins are a little bit lower.

William J. Clough

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

The reason why they were lower is due to the time constraints on accommodating the delivery schedules for those. We had to pull in more labor, put in some overtime to meet deadlines. It wasn't having to do with the component cost, it's having to do with meeting deadlines for the customers' timing. And that's significant, mostly because they're trying to reach that 12/31 install and go live date. And in order to meet that, we just had to bring in more experienced labor.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

I see. Any sense on how that's going so far this quarter, where margins may shake out?

William J. Clough

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

They will be -- they'll likely be slightly better, but they're still going to be lower than Q1 and Q2 just due to still the timing is compressed on those projects.

We expect them in 2015 for those projects because there won't be the time constraint, that, that margin will recover.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

Okay, that makes -- yes, that's helpful. And just lastly, maybe any color that you can give on with GE and the gas turbine side would be helpful. And as well as with IRIS, have you started the joint marketing that you've talked about in the past?

William J. Clough

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

That was part of the reason for the meeting in Orlando. We had a great meeting there with their top management of Intelligent Platforms. We are in already to move on the joint marketing. Our first customer is going to be ETP, and we're hoping to set up meetings with them the end of November, first part of December. And that will be meetings attended by both us and GE. So GE is very committed to that technology. As far as the gas turbine opportunity, we're still dealing with their engineering team. They have some very unique gas combinations that they want to test us against. They still have a couple more that they want to do that with. And again, one of the reasons that I'm so forceful on this Intelligent Platform relationship is we're trying to now get up to a more commercial level, where we can really deal with a commercial team at the aero [ph] as opposed to an engineering and R&D team, which really, to some extent, looks at things like this as a science project. Again, we're really looking to drive into that market. As an aside, we did just last week get the first orders from Mitsubishi Power, which is the new Mitsubishi Hitachi combination that are now -- will be, I believe, the second largest provider of gas turbines in the world. They have ordered their first 2 units. Much easier pathway there. We have 2 units that we'll be delivering to them for use in Thailand. And if those 2 units do what we say they will do, which we believe they will, they're talking about rolling it out as an option on their fleet as well. So again, some movement there but not yet the movement that we want.

Joseph A. Maxa

Dougherty & Company LLC, Research Division

Okay. So lots still to come, but it looks like you're moving forward on many of these projects.

William J. Clough

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

Absolutely.

Operator

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

Andrew D'Silva

Merriman Capital, Inc., Research Division

Just a couple quick questions. When you stated the 26 GasPT units were sold year-to-date, that implies your revenue-generating units, correct?

William J. Clough

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

Correct.

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

Yes.

Andrew D'Silva

Merriman Capital, Inc., Research Division

And do you have a breakout as far as PT2 and PTi goes on the units?

William J. Clough

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

No, we didn't. Generally speaking, they're components of larger projects that we're doing. For example, the Biomethane is a good example. The Biomethane, each of those Biomethane terminals has 2 to 6 GasPTs attached to them. So again, they're components of other larger projects, so we did not break that out separately.

Andrew D'Silva

Merriman Capital, Inc., Research Division

Okay. And then with your Biomethane projects, obviously, aided in the bump in Orbital revenues during the quarter, are those on a percentage of completion method? And then if so, how many of those are carrying over from the third quarter, into the fourth quarter?

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

They are on a percentage of completion method. I think Bill earlier mentioned there is 6 or 7 still in the pipeline. Is that correct, Bill?

William J. Clough

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

Yes.

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

For the year-end to finish, but they're at various stages of completion.

Andrew D'Silva

Merriman Capital, Inc., Research Division

Okay. And so that's 6 or 7 total, including ones that you might be working on from third into fourth quarter?

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

That is correct.

Andrew D'Silva

Merriman Capital, Inc., Research Division

Okay, good. And any sense, or do you have a number of how many IRIS units have been installed or in the process of being

installed year-to-date?

William J. Clough

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

Yes. I think at the beginning of the year, there were 12 left to install on the 69 or 70 that we're installing, and I believe that there is 2 left to install at this point. So I think we've installed 10 more.

Andrew D'Silva

Merriman Capital, Inc., Research Division

Okay. And those again are on a percentage of completion, I take it?

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

Yes.

Andrew D'Silva

Merriman Capital, Inc., Research Division

Okay. And then last question, Linde Group, anything you can update us with there? Obviously, a much higher margin VE probe coming out of that opportunity.

William J. Clough

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

I'm not sure I understand your question.

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

The Linde Group status.

William J. Clough

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

Oh, the Linde Group. No, I can't give you any idea on that. The Linde Group did buy the 2 very expensive \$137,000 sampling system. They're both in, both as we understand it operating well, but we've had no update at this point as to what they intend to do moving forward.

Andrew D'Silva

Merriman Capital, Inc., Research Division

What's the TAM there again, the total addressable market for those units potentially within the company?

William J. Clough

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

They operate, I believe 20 terminals, and those terminals could use 5 apiece. You're talking about, what, 100 units that you would have right there, and they're about \$137,000 a piece, so fairly large TAM.

Operator

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

Marco Rodriguez

Stonegate Securities Inc., Research Division

I just wanted to follow up here on a couple of items. On the power side, what percentage of your revenues are from new products? And how does that kind of compare to last year?

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

I don't have that broken out, but it wouldn't be that significant of a number from the NPI products. A lot of the NPI introductions go into distribution, and that's where they start to penetrate the market. And then the cycle time from going from an introduction to going into really manufacturing quantities is typically 12 to 18 months.

Marco Rodriguez

Stonegate Securities Inc., Research Division

Okay, got it. And then shifting here to the gas segment, last quarter, if I'm not mistaken, you guys were talking about flat to maybe slightly up revenues for the segment in fiscal '14. And obviously, you had pretty strong performance here in Q3 with the Biomethane stuff. Was that work somewhat of a surprise to you? Or were revenues pulled forward? Just trying to kind of understand what's going on there.

William J. Clough

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

Yes. I think at the end of the day, the push by the government, by the U.K. government, to really get these Biomethane terminals up and running by December 31 was really a surprise to everybody. They -- there was talk at the beginning of the year, a lot of talk actually at the beginning of the year, that the government was going to extend that for another 12 or even 24 months, and then they didn't. And so a lot of these companies really had to get these things done; Scotia being the biggest one out of Scotland had to get these products -- projects done. Frankly, we bent over backwards to get them done because we know that there's going to be a huge demand for these as we go forward. And we wanted to make sure that we partnered with these companies, especially Scotia, and showed them what we could do, and that's what we've done. But again, it was somewhat of a surprise for everybody that the government didn't extend the deadline.

Marco Rodriguez

Stonegate Securities Inc., Research Division

Got it. And I'm not sure if I missed this or not in your prepared remarks, but how many projects or units did you do on the Biomethane side on the GasPT for Q3?

William J. Clough

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

I think there's a -- we're doing a total of 13, I believe, this year. And I think there's 7 -- I think there's around 7 left, so I think it would be something like 6.

Marco Rodriguez

Stonegate Securities Inc., Research Division

Got it. And just wanted to get a little bit better understanding on the Branom Instrument agreement and why you're thinking this will be a very significant impact for you guys.

William J. Clough

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

Officer of CUI

The -- when we partner with people like Branom or Ives, they are long-term equipment distributors who are recognized throughout the industry. And when they adopt a technology like ours, it's the first step for the industry to really make technology credible. Again, it's Branom, like Ives, Ives in the Northeast and Branom in the Northwest, are both very, very highly respected. They provide a number of different instruments and instrument packages to the natural gas industry and have been doing so for years and years and years. They have a very experienced sales team. And again, it's the kind of group that we want there when the demand for our product arises. They're the ones that people will go to because they've gone to them in the past to get the product, to get what they need in service, to get what they need in installation. And so that's why we try to partner with them, Benchmark, Ives, the bigger, more respected companies.

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

And we've seen already with that several customer visits, both with Branom on their own and then with our sales team as well, visiting them with Branom to introduce the Orbital gas segment products. And then on top of that, we've also done trainings at multiple of their sales office facilities just to get their sales team up to speed. So Branom is quite proactive in this process, and they've really taken off on being active there.

Marco Rodriguez

Stonegate Securities Inc., Research Division

Got it. And last quick question, following up on an earlier question in regard to the distribution channel. I believe -- just kind of looking for some clarification, you mentioned that the distributors, they go in there with the new technologies to the clients, and the clients end up -- kind of sounded like they end up just going back and buying the GCs. But it sounded like you were trying to change something from a strategic standpoint on the marketing side. Can you kind of provide some more color in regard to that?

William J. Clough

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

Yes. I think what we need to do as the introducer of the technologies, we need to get adoption with some of the bigger groups, especially in North America. We have Europe and, certainly, the U.K. We have that recognition. In the U.S., what we're doing is really attacking -- and this is the Relentless Ventures [ph] relationship. We're really attacking Energy Transfer Partners. They're the second-largest pipeline company in the U.S., 62,000 miles of pipeline, and we're really now meeting with them at the very highest levels. In fact, we're at a point now where we have their Head of IT and Head of Technologies looking at our devices. We're setting up meetings, as I mentioned, hopefully, at the end of November, first part of December, that GE will attend with us. And really, we're doing a push-down project with them. In fact, one of the first pieces of feedback we got from the project manager at the ETP is that this was the kind of technology that at the lower levels will be difficult to adopt because people just don't want to change what's already there. At the top levels, they see the cost benefit analysis, they see what we can do that other technologies can't do. And so we can drive this down. If we can get Energy Transfer Partners as an example to adopt this technology on their new pipeline, which they've just announced the building of 15,000 miles of new pipeline, then we can use that, that leverage, with our distributors to introduce technology to other North American pipeline companies. Literally, what we have is then an entire ground crew with these distributors ready to move. It's now our job to get that ground crew what they need, and that is credibility from 1 or 2 big pipeline companies. I've been told, and it seems very obvious, and I think it's true in many industries, for new technology to really take off and get adopted, you have to have it adopted by 1 or 2 leaders in that industry. Energy Transfer Partners is known as a leader in the industry when it comes to technology. And again, we think if we can get that traction with them, then our distributors can deliver to other smaller pipeline companies. So that's the key, and I think it's a combined effort. It's an effort both from the ground up with the distributors and from the top down with ETP.

Operator

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

Evan Richert

Sidoti & Company, Inc.

Bill, in your prepared remarks, I think you mentioned something about sales to North America, Europe and Asia. I know you talked about, as far as Asia goes, sales to Mitsubishi in Thailand. I was wondering if you consider selling to any pipeline companies in Asia or if that's still primarily just North America, Europe market.

William J. Clough

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

Well, we have 2 Chinese distributors now, RealFlow and one other. And they are actually looking, to some extent, at the pipeline industry in China. However, China has a little different concept of the way they transport gas. Much of their natural gas and other transport is done in a compressed nature and by vehicles. So it is a little different. They do still need the monitoring, but it's a different way of monitoring. So we would certainly look at the pipeline companies. And obviously, we are looking at LNG terminals in Japan and Korea. So we have applications there. But again, the big gas pipeline companies, you don't find them in Asia predominantly, simply because they have a different philosophy as for the way they transport gas.

Operator

Our next question comes from the line of Bill Nasgovitz of Heartland Funds.

William John Nasgovitz

Heartland Advisors, Inc.

Bill, gas segment, I might have missed this, \$18.8 million in backlog. What was it last quarter and a year ago?

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

Q2, the backlog, let me look that up, and if you want to ask your next question, I'll pull it up.

William John Nasgovitz

Heartland Advisors, Inc.

Okay. All right. Yes, sure. The next -- just moving to power, back to that, have you signed up any large electronics companies in terms of design-ins or partnerships? And what might the market potential be for this area?

William J. Clough

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

The market potential is huge, frankly. We've looked at Darnell [ph] surveys and others that say that the market for digital power at the end of the day is going to be in the tens of billions of dollars. It is the way power is going. Our publicly announced partnership, the one that we're obviously most proud of at this point, is with Ericsson Energy. They're the second largest networking company in the world, and they have, in essence, worked with us through a joint venture and now through the AMP organization to introduce our technology with their footprint. And they're big enough in the industry to have set a standardized footprint. So we have -- our product is already in their sockets, in Ericsson's sockets. We are moving out to have tests with other big companies. However, we don't have any design wins at this point that we can point to, simply because once we do, they'll be announced. I mean, we will announce the design wins. We do have product out there. It's being tested by some of the largest networking and telecommunication companies in the world, frankly. And as those projects move forward, we'll certainly be announcing them. But I think Ericsson and Murata are the 2, with AMP, that we're most proud of right now. And if you think about it, we're partnered with multinational, multibillion dollar companies, 2 of them and CUI. And I think that's no accident. It's not a coincidence. We're partnered with them because they see that our technologies is far in advance of the rest of the community.

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

So I've got the answer for Q2 '14 and Q3 '13 backlog for the gas segment. And then I'll give you a little bit of explanation on where it changes. Q2 '14 was \$23.7 million, and Q3 '13 was \$23.9 million. Factors impacting the decrease to the \$18.8 million is the pull-in on the Biomethanes that moved into Q3 and then also the change in the FX translation, coupled with just the issues with regards to how National Grid has been ordering this year-to-date, doing smaller orders and shorter project time lines.

Operator

Our next question comes from the line of Morgan Frank of Manchester Management.

Morgan Frank

Just one quick -- most of my questions have been answered. One quick sort of housekeeping issue. What is the overall gross margin on the Biomethane skids? I mean, I know there's [indiscernible] going to carry a lower margin.

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

Sure. During the quarter, they were in the low-20s and in the high-teens across them. The blended average is probably about 18% to 19% for the margin on those. We are expecting that to improve during the fourth quarter somewhat, but that's where they were for the third quarter.

Morgan Frank

Can you give us some sense of where you think they would be on a normalized basis if you weren't rushing to try to get to them?

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

Yes, actually, normalized basis, we picture those in the low-30s.

William J. Clough

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

And actually, Morgan, that's where they'll go back to next year. They'll go into the 30s. That's really why we're pushing to get these projects out for these bigger companies because we know they're going to be doing more of them and we want to be the vendor of choice. So yes, that will move back in the low-30s.

Morgan Frank

But do you guys have enough space to do 30 of these units next year?

William J. Clough

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

I'd tell you, that's one of the things we're looking at right now. We've talked about building a bigger facility on the site that we have in the U.K., and that's something that we're moving forward with. The design has already been done. We are in the process of talking about financing and what-not for that now. So it's a cogent point, and we are ahead of that.

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

And just to kind of give you a little picture of that, I was just over there this past month and went over to the manufacturing site, which was overflowing up to and including loading one of the larger Biomethane skids on to a flatbed semi-truck. And it was good that, that was getting loaded out because there was a whole other skid going into the production facility that same day. So it's busting at the seams right now, and that is something we're working on.

Morgan Frank

They are worse problem to have.

Daniel N. Ford

Chief Financial Officer and Principal Accounting Officer

Exactly.

Operator

[Operator Instructions] Our next question comes from the line of Roger Liddell of Clear Harbor Asset Management.

Roger Liddell

Question I have is on the Mitsubishi turbine opportunity. My understanding is that with the PT system installed, the operator of that turbine can decrease the gas burns, something like 5% or 6%, because of the protective ability of the system. That's a big number. So the question is, do you foresee Mitsubishi incorporating it into existing fleet out there, plus new ones? And is my figure about right on the potential gas savings?

William J. Clough

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

Yes, your figure is just about right. And we are eager, eager, as you might imagine, Roger, to have Mitsubishi put these devices on their 2 test turbines. We've been very frustrated at the process of GE simply because GE is so big and so slow. Mitsubishi is much faster and much more interested in performance across the broader spectrum of gas as opposed to certain unique gas qualities. And I think I agree with you. I think when they see what we can do, it's going to be quite exciting for them. We have been negotiating with them for such a long period of time only because, and as you may know, the Japanese culture just takes a long time to put contracts together, and that's what it's been. It's really been a system of putting the contract together and getting them in place. So that's done now, and frankly, we're eager to have them put these 2 devices on. We're going to send a team out to install them so that they go on just right. And we think they're going to see a significant increase in performance and a significant decrease in fuel usage, which, of course, is what they're looking for.

Roger Liddell

And resulting drop in emissions also, isn't that a big number?

William J. Clough

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

Yes, exactly. They are not as concerned about that, frankly, as they would be in the U.S., for example. Emissions in Asia are a much different deal, but they are very, very concerned about fuel usage and performance.

Roger Liddell

Yes. Another question regards the press release 3 weeks ago on the Institution of Engineering and Technology and their 2014 innovation awards. Both the VE and the PT are shortlisted for that, which, to me, is quite unusual, if not extraordinary. Is that shortlist 5 or 10 or 50 or 100? And if either of the technologies gets a big win, does it really matter?

William J. Clough

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

It matters -- well, let me first answer your question. I think that there are 5 in 1 category, and I think there are 8 in the other category. And I don't know which is which, but there's 5 in 1 category and 8 in the other that we're in. So it is quite an elite group that we're in right now, but it is -- it's a bit deal for a couple of reasons. That is a very, very respected European engineering

group. It's 140 years old, I believe. And they are a group that people pay attention to. And one of the things that we're doing, especially in Europe, is we're doing white papers, we're doing a lot of behind the door kind of work at getting into the European markets. That's how we ultimately got this Snam Rete. That's how we got into National Grid. We did it because we were respected by their engineering team. It's just another, if you will, badge of credibility, particularly in Europe for the technologies, and it's something that works especially well up in Norway, up with Statoil, for example. We believe it will be quite impressive and quite a motivator for ConocoPhillips up in the North Sea. They're talking about replacing all of their probes with our VE technology. And again, it's just another way that we can show that the technology is not only credible but is far advanced to anything else that's out there. So we're hopeful that we're going to see one, if not both of those wins. And even without that, we are in very elite company.

Operator

And our final question today comes from the line of Gregory Macosko of Montrose Advisors.

Gregory Macosko

Just a couple of questions with regard to the orders that you mentioned on GasPT. You've delivered 26 year-to-date. Did you mean 27 more are going to be delivered by the end of the year?

William J. Clough

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

Yes. We've updated purchase orders and have now won orders for 27 more that will be delivered by the end of the year. I don't have the breakdown as to which are GasPTs and which are GasPTis but yes, 27 more.

Gregory Macosko

That's quite an acceleration then.

William J. Clough

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

Well, it is. Yes. But it's still not the numbers we're looking for. I mean, frankly, we're not looking for tens, we're looking for sales of hundreds. And so yes, it is an acceleration. But again, what we're looking for is the bigger orders, and that's really what we're working hard to get.

Gregory Macosko

And then switching over to Snam Rete, the drop-dead date that you mentioned was with regard to 1,500 units. Is it conceivable that they could put in a very large order just around the time of the drop-dead date? And could you match that?

William J. Clough

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

Yes, we can build them. We're already set up for that. Frankly, one of the things that -- when we talk about building a new facility at the Stone land, part of it is to build -- to start building the GasPTis at our own facilities. So we can definitely -- we can deliver if we needed to. I don't see that happening though. They really have worked in partnership with us. I see them making multi-hundred orders, and I see them starting that, again, as I mentioned, first quarter of 2015. They are not the kind of people who are going to drop a 1,500-unit order on us and say we need it next month or in 6 weeks. That's not the way we work. They have been very open with us and have communicated. They're just -- as I mentioned in the past, there's just no urgency with them. They move at their own pace. But again, I've seen nothing that would indicate to me that they're going to do anything untoward. They are partners with us. They would like the technology, they like what it does and they want to adopt it across their system. So I think in that regard, I feel that they'll work with us.

Gregory Macosko

Okay. And then finally, just with regard to the press release, you mentioned \$738,000 of equity compensation for strategic consulting. Does that mean that you have some deals where it's involving stock?

William J. Clough

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

Yes. It was a deal which was announced in an 8-K with a company called Relentless Ventures [ph], and it was 100,000 shares, which at the time was equivalent to \$738,000. And it was for entry, really, at the very highest levels with Energy Transfer Partners. The Relentless [ph] has some incredible relationships at all levels of Energy Transfer Partners, and it has, to date, really paid off. It has not only allowed us to meet with ETP and to have Kelcy Warren actually appoint a project manager for adoption of our technology, it's also enhanced our relationship with GE Intelligent Platforms. So again, it's been -- I think it's been quite worthwhile to date.

Operator

And we did receive one additional question from the line of Angus Burton of Marathon Capital Management.

James G. Kennedy

Marathon Capital Management, LLC

Bill, Dan, Jim Kennedy. First of all, I just wanted to say, since it is Veterans Day, how about a shout-out for all those folks who have served our country unselfishly over the years.

William J. Clough

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

Absolutely, Jim. Very nice thought.

James G. Kennedy

Marathon Capital Management, LLC

Secondly, and I think I mentioned this in the last call, Bill, I think it would be helpful going forward if you could provide, perhaps delineate, where these PT2 gas sales, if you will, are in terms of where they are in the chain. So how many are with distributors? How many of those are actually in field trials? And then how many have been purchased by actual end customers? And I think that will give us some metrics going forward on which to kind of judge market adoption.

William J. Clough

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

Yes. Jim, just so I'm clear, maybe I haven't been so clear, all I'm reporting now is end user purchases. That's all we're reporting. So everything you're getting is end user purchases. I didn't define it by geography. Although I'll tell you that I think most of these are European sales. But the bottom line is that's all I'm reporting. We're only reporting now end user sales. We're not reporting any distributor sales. We're not reporting -- we have a number, frankly, of distributor inventory sales, but we're not reporting those anymore. All you're getting now is end users actually purchasing the devices.

James G. Kennedy

Marathon Capital Management, LLC

Yes. And I appreciate that. That's a useful number. I think it would also be helpful in the long run though to see how many are being purchased by distributors. And then if you have access to the information, how many of those are -- in turn, are in field trials?

William J. Clough

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

All right. Sure. That's a figure we can put together.

Operator

Thank you. And ladies and gentlemen, that does conclude our Q&A session. I'd like to hand the conference back over to Mr. Bill Clough for any closing remarks.

William J. Clough

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

Just in closing, again, I want to compliment the entire staff and employee base at CUI Global and at, obviously, our subsidiary, CUI Inc. and Orbital. It was a really fantastic quarter, and that's a team effort. And those people did a great job. And as I've said before, and I'll say again, we are working hard to deliver a return on investment for our investors and for our employees, and we will continue to do that. I want to thank all of you for your attendance and for your continued support. Thank you much, and that's the end of our call.

OperatorLadies and gentlemen, thank you for your participation in today's conference. This does conclude the program, and you may all disconnect. Have a great rest of your day.

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