CUI GLOBAL, INC.

Moderator: Casey Stegman
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9:00 a.m. ET

Operator: This is conference # 36265652.

Good day, ladies and gentlemen. Welcome to the CUI Global First Quarter 2015 Earnings Conference Call.

At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will be given at that time. Should anyone require operator assistance, you may press star and then zero on your touchtone telephone.

As a reminder, this conference call is being recorded.

I'd now like to turn the conference over to your host for today, Mr. Casey Stegman, Investor Relations.

Sir, you may begin.

Casey Stegman: Thank you, Ben. Good afternoon, everyone. Welcome to the CUI Global 2015 first quarter earnings conference call. 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 first 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 release that was issued today. If you have not, it can be accessed to the company's Web site 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 Web site 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 inherent risks and uncertainties that could cause actual results to vary materially from those projected in the forward-looking statements. The company may experience significant fluctuations in future operating results due to a number of economic, competitive and other factors, including among other things our reliance on third-party manufacturers and suppliers, the government agency budgetary and political constrains, new or increased competition, changes in market demand, and the performance or liability of our products.

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

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

Bill Clough: Thank you, Casey. Thank you, everyone, for taking the time to join us on this morning's call. 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 in more detail. When Dan is done with his remarks, I'll provide some additional commentary on some of the key initiatives we are currently working on at CUI Global. We will then open the call up for Q&A.

Our first quarter results were not as strong as we'd hope with flat year-over-year revenue and greater net loss. Revenues were $16.9 million, essentially flat compared to the prior year. From a segment perspective, revenues for the Power and Electro-Mechanical segment contributed $10.7 million, a decline of 1 percent from Q1 of '14, and the Gas segment contributed $6.2 million, an increase of 2 percent from the prior year. On the natural gas side of the business was stable, and has largely recovered from the biomethane issues we experienced last year. The Power and Electro-Mechanical segment experienced challenges that impacted both, our top and bottom line.

For one, there were delays in receiving products associated with work stoppages at West Coast (port scooter) and extended labor action of the ILWU and its affiliates.

In addition, the entire electronics industry has experienced extensive supply chain delays due to a worldwide shortage of certain raw material components that have increased some lead times to an excess of 22 weeks.

On a more positive note, however, backlog is strong for both business segments representing $39.5 million of open customer orders as of March 31, which makes us very optimistic as we look ahead. While the numbers in the quarter were lower than we expected, largely due to circumstances beyond our control, including expenses associated with the startup of our Houston facility, and our acquisition of Tectrol, now operating at CUI Canada, there were several positive events in addition to the backlog that transpired in the first quarter which leave us well positioned, moving forward.

Our recent distribution agreements with Mouser Electronics, as well as our acquisition of CUI Canada were significant events for the company. We believe the partnering with an industry icon such as Mouser will help us achieve our goal in increasing our global market share and ultimately demonstrate management's commitment to creating value for our shareholders.

Much like our relationships with DigiKey and Future Electronics, the Mouser relationship should provide access to new markets while generating increased incremental revenues. With respect to Tectrol, or CUI Canada, we remain very excited about this opportunity and the positive impact we expected to our top and bottom lines over the course of the next several years.

The acquisition gives CUI a greater presence in the electronic space, extends our power product offering and capabilities, as well as further enhances our status in the low recognized manufacturer. We continue to believe that this transaction will enable us to deliver the most advanced power solution to our customers from the AC front-end all the way to the DC point of load.

We are very excited about the synergies between the companies and our advanced power technologies, (Nolan and Solus). The integration has already enhanced capabilities of our power group, and we are currently analyzing our ability to manufacturing more of our product in Canada, including certain components associated with our GasPT units.

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?

Dan Ford: Thank you, Bill.

I'd like to now give a financial overview for the first quarter of 2015. As Bill mentioned, the company's revenues were $16.9 million for the quarter, essentially flat from the first quarter of 2014. The cost of revenues for the quarter was $10.6 million versus $9.9 million for the same quarter in 2014. Cost of revenues as a percentage of revenue for the three months ended March 31, 2015, increased to 63 percent from 59 percent during the prior year competitive period.

This percentage will vary based upon the product mix sold during the period, including the mix of natural gas and systems sold during the period, contract labor necessary to complete gas related projects such as the biomethane projects, and is also dependent upon the competitive markets in with the company competes, as well foreign exchange rates.

Additional impact from the margin in the first quarter of 2014 is related to the delivery of products that was acquired as work in process with the Tectrol acquisition, and had a market as part of the purchased price allocation in accordance with U.S. GAAP requirements. That impact equates to approximately 1 percent of the increase in cost revenues as a percent of revenue.

This will not have a material effect going forward after Q1. The company expects 2015 cost of revenues to be remain in the 60 percent to 63 percent of revenues range during the 2015, consistent with the past three fiscal years and resulting from consistent margins on core power segment products, lower margins on gas integration related projects, and higher margins on technology based product offerings in both segments.

The sales order backlog at March 31 was a consolidated $39.5 million. Of that, the Power and Electro-Mechanical segment held a backlog of customer orders of approximately $23.7 million, and the gas segment held a backlog of approximately $15.8 million. EBITDA for the first quarter was a loss of $3 million or $0.15 per share versus $728,000 profit or $0.04 per share for the same quarter 2014.

Adjusted EBITDA for the first quarter 2015 was a loss of $2.6 million or $0.13 per share as compared with $900,000 profit or $0.04 per share in first quarter 2014. The EBITDA and adjusted EBITDA were impacted by the items discussed previously regarding launching Orbital Gas Systems in America. The CUI Canada operations had a negative impact to revenue associated with the increase components and delivery delays due to issues at the ports.

Gross profit for the quarter was $6.2 million or 37 percent as compared to $7 million or 41 percent in the first quarter 2014. Both the Power and Electro-Mechanical segment and the gas segment generated quarterly gross profit margins of 37 percent , this demonstrates a significant improvement for the gas segment as compared to the fourth quarter of 2014 which had been negatively impacted by the compressed delivery schedules and related increased cost of production for biomethane projects which has since improved.

Selling, general and administrative expenses increased $8.7 million for the first quarter compared to $6.2 million for the same period 2014. These SG&A increased as a percentage of revenue from 37 percent to 52 percent in Q1 2015.

The increase is primarily associated with the addition of the SG&A activities of Orbital Gas Systems North America, which opened in January 2015 and accounted for approximately $1.6 million of SG&A during the period while contributing minimally to Q1 revenues as within the first quarter booking orders and beginning integration projects. With similar to the Orbital United Kingdom will be accounted for under the percentage of completion method for revenue recognition purposes.

Additionally, CUI Canada was acquired in March 2015 and accounted for approximately $114,000 of the increase in SG&A during the period. Remaining increases in SG&A are associated with the ongoing activities to reach new customers, promote new products lines, including Novum, Solus, GasPT, IRIS and (NVE-Probe), as well as the new product introductions from CUI Canada and CUI expenses associated with the acquisition of CUI Canada.

Operating activities generated negative cash flow generated negative cash flow of $1.4 million during the quarter ended March 31, 2015, versus negative cash flow of $88,000 for the same period in 2014. The change in cash from operations is primarily the result of the first quarter net loss before non-cash expenses offset by changes in assets and liabilities.

The company reported a net loss of $4.1 million or $0.20 per share for the quarter ended March 31. In the prior year period they come here reported a net loss of $488,000 or $0.02 per share. Net loss for the first quarter was primarily the result of the increased selling, general administrative expenses related with the opening of the Orbital Gas Systems North America facility in January and the addition of CUI Canada in March 2015, as well as the non-going amortization of intangible assets related to the Orbital Gas Systems Limited acquisition and CUI Canada acquisition, in addition to previously discussed negative impacts from lead times and delivery issues within the power segment, which negatively impacted revenues.

We expect the turnaround of the operations acquired from Tectrol, which wasn't solvency prior to CUI acquisition will be a two to three year process as we increase efficiencies within the factory, increase and improve the sales channel to both existing customer acquired, and generate new sales through CUIs extensive internal and external power segment sales group and distribution channels.

Adjusted net income, which represents the net income or loss, plus the amortization expense of the intangible assets acquired via the 2013 Orbital acquisition and the 2015 CUI Canada acquisition plus the expenses associated with the stock options, stock equity grants, and notes issued for compensation of services, plus the loss generated by the two new subsidiaries Orbital Gas Systems North America and CUI Canada in the first quarter. For the quarter it was a loss of $1.1 million or $0.05 per share as compared with net income of $522,000 or $0.03 per share for the first quarter of 2014.

As of March 31, CUI Global Health cash and cash equivalents of $9.6 million insured term investments of $5.5 million. Also as of March 31, the company added 20,774,000 common shares outstanding.
And now I will turn the call back to Bill Clough. Thank you.

Bill Clough: Thank you, Dan.

Before we begin taking questions, let's talk in more detail about some of our new technology accomplishments, significantly, our first quarter GasPT2 and GasPTI orders based on units installed and POs received is equal revenue wise to all of the units we delivered in fiscal year 2014. We delivered 15 GasPT units, 10 GasPTIs, and 5 GasPT2s, have received purchase orders for an additional four units all GasPTIs and have another 23 units out for bid. We are continuing to make progress with our larger GasPT opportunities including progress with Snam Rete Gas, Dominion Compression, energy transfer partners and others.

Specifically in reference to Snam Rete, as we discussed during previously calls, we have successfully completed field trials with six units, and we're waiting an independent report from the University of Milan. We did receive that report, and it was as expected, quite positive. A PDF version of that report is currently available on our Web site under news and events.

We have subsequently been prequalified by Snam Rete as a supplier, we expect the former tender for suppliers to issue sometime in June with a decision to be made by Snam Rete in July. In fact all of these larger projects, Snam Rete, Dominion, Mitsubishi Heavy Industry, and others continue to move forward in a positive manner.

Moving to the VE Technology sales, the news is also quite positive. In the first quarter, we delivered an additional 25 VE sampling systems, bringing our total delivered systems to 98 units, while we delivered an additional 129 VE thermal well applications bringing the total deliveries of thermal wells to 323 units.

Furthermore, we have outstanding purchase orders for another 49 VE sampling systems, including almost a 1 million pound order for Gorgon LNG project in Australia. We continue to revenue enquiries and are working with numerous potential VE Technology customers including ConocoPhillips, ABB, Statoil and others. We are quite confident of 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.

Additional highlights from our first quarter include appointment to GE's deferred solution partners program, opening of Orbital Gas Systems North America in Houston, which currently has a backlog as of March 31 of $1.7 million of business. Launch of our distribution partnership with Mouser Electronics for the power segment, acquisition of CUI Canada, and certification by Snam Rete Gas as a prequalified supplier.

In conclusion, based largely on factors beyond our control including the West Coast labor strike and worldwide extended lead times for components affecting the power segment, our first quarter was not as strong as we have liked.

However, strong backlog and the continued interest and tracks that we are seeing in our new technologies, versus especially our natural gas technologies, along with our initial interactions with customers over our new product portfolio acquired with CUI Canada makes us quite confident about a year as a whole.

As the year unfolds, we also expect significant incremental revenues from our CUI Canada acquisition, and the opening of Orbital North America in Houston. As those two entities begin to contribute increased revenues along with the continued impact of the new technology, and the natural delivery of product delayed in the first quarter we are quite confident about our ability to meet and/or exceed our full year performance numbers.

Finally, I'd like to thank everyone for your continued interest and support of CUI Global. Now let's open the floor for questions.

Operator: Ladies and gentlemen on the phone lines, if you'd like to ask a question, please press star and then one now. If your question has been answered or you would like to remove yourself from the queue for any reason, you may press the pound key. Again, for a question, please press star and then one now. And one moment for our first question.

Our first question comes from the line of Eric Stine of Craig-Hallum. Your line is open, please go ahead.

Eric Stine: Hi Bill, hi Dan.

Bill Clough: Eric, how you're doing?

Eric Stine: Fine. Maybe we could just start everything in the power business, now that the ports strikes, those are over, maybe how late in the quarter trended and what you're seeing early in the second quarter, do you anticipate making up most of those volumes in the second quarter? And then some clarity around the supply chain issues you're seeing as well?

Bill Clough: Dan, you want to respond to that?

Dan Ford: Sure. Regarding the orders, yes, we do expect those to be filling out now. As you mentioned, the ports issue has resolved. So those delays are hopefully passed us for the long term now regarding shipping. The delays in the industry regarding lead times are some critical components. they are caps mostly. They go on the power supplies, and we're seeing lead times on those uppers of 20-22 weeks.

And that is an industry-wide shortage right now that we're working with our supply chain to try and resolve and get them in as quickly as we can and looking at how we order those to try and get extra on hand in order to prevent the delays on future orders.

So it's a work in process, but that does affect the entire power segment that we have, thermal power plus standpoint. And that's just a factor now, we're working with our customers that impacts lead times as we're quoting them and they are seeing that from their other suppliers as well, so that is an issue that we're working on.

Over the course of the year, though, it should level itself out. Typically that's how these lead time shortages go. They affect a three to six months period, and then the supply chain’s restored. So at this point we're seeing our scheduling to starting to work out for that.

Eric Stine: OK. So, you -- I mean, second quarter you will see some improvement?

Dan Ford: Second quarter we'll see an improvement over the first quarter, yes.

Bill Clough: The other thing, Eric, the good news is, this is an industry wide matter, so we didn't -- we lost no orders as a result of either of these. I mean, there was nowhere else to go. The West Coast strike affected everybody as does this shortage. So again, that's the good news.

Eric Stine: Maybe to turn the Snam Rete, so you've been chosen prequalified as a supplier. I mean, does that basically mean if they move forward, you will be one of them? I mean, is that how we should read that or is there still a process to go through?

Bill Clough: Yes, there is still formal process to go through. The prequalification they do, just to make sure that they don't get companies supply that can't deliver what they want. In other words, they are asking for as many as thousand units a year, and they don't want applications from three guys in a garage. So the prequalification is really to authorize companies to come in and bid for the supplier process. So that prequalification simply allows us to get in the bidding process.

However, if you look at the report, and I think you may have seen this report that's sitting on our Web site, you will see that the (uni symbol) of Milan sited only two technologies that apply in any way, ours being the optimal -- and this is their language -- the optimal solution, and then the (L-ster) lab series being the secondary solution.

And again, as we've talked about in the past, the (L-ster) solution is one that requires pure methane gas calibration at least twice a week, which means that it will not meet the requirements that they are looking for. So, again, we're very confident that we're moving in the right direction on the project. And so far, they have stuck to the schedule that they gave us at the beginning of the year.

Eric Stine: OK, that is good to hear. Last one for me, maybe just on IRIS, can you update on the national grid, the RFP, and is that something or you're still planning to build in live further instructions? Thanks a lot.

Bill Clough: That's what they're telling us is to still consider a field schedule to begin in July. They have not yet issued the Tier 1 RFP yet. However, they did come to us, interestingly, and try to set up a situation where we could do seven of their oldest metering points.

They attempted to set this up on kind of a piece meal basis, and we're told by their procurement division they can't do that anymore; they have to let out the whole 150 units to 200 units order. They can't go six or seven or eight or 10 at a time. So I know that that's put a little more urgency under them to get these Tier 1 RFQs out. And we, again -- we're expecting it to come out any day, but they are telling us to be prepared for July.

Eric Stine: OK, that's great. Thank you.

Operator: Thank you. Our next question comes from the line of Joe Maxa of Dougherty & Company. Your line is open, please go ahead.

Joe Maxa: Thank you, and good morning.

Bill Clough: Hey Joe.

Joe Maxa: Just a quick follow-up on the Snam Rete, you mentioned you're expecting the formal tender to come out in June and did you say that in RFP in July?

Bill Clough: No, the RFP was about IRIS, I expect the formal tender to come out for suppliers in June, they told us they will make a decision on the suppliers by July. They will then tender for installers in the summer and decision we've made early fall, and they are still saying to us that they expect purchase orders to go out late third or early fourth quarter for deliveries to be made first quarter of 2016.

Joe Maxa: Got it, OK, that's very helpful. Thanks for the clarification. Back on the power and electro-mechanical segment, the delayed shipments sounds like that's starting to move, I'm just curious, if you take a look at the lead times in the products that have been affected by the shortages, what percent of your products would you say are affected by those shortages, and I know that will take little bit time but I'm just wondering the rest of the business is picking up from the delay at the port.

Bill Clough: Yes, so all of the -- our entire product offering in the power segment was affected by the ports. It all comes through the west coast unless it’s (drop) shipping, so a significant portion of our business is impacted by that.

Regarding the lead times issues, it has with the power supply; it doesn't have to do with the component. So that's about 60 percent of the power segment product offering, so a significant chunk is impacted by the lead times on the caps.

Joe Maxa: I see. OK, that's helpful. And can you give us a little color on the backlog of that segment, how much was from the delay and how much is maybe underlying business strength and then perhaps what Tectrol may be contributing?

Bill Clough: Yes, the Tectrol addition, it's in that backlog, it's about $10.5 million, and then the delay, between the two delays was about $1 million, and then the rest is sort of the cycling and turning over in the business there.

Joe Maxa: Are you still thinking Tectrol brings $10 million to $12 million for the year, because it's a pretty strong backlog to get you going for Q2.

Bill Clough: Their backlog has longer scheduling out on it, a lot of it is for significant OEM customers, so that's about a yearlong schedule, obviously we're backfilling some of that and we hope that it's a bigger number but at this point that's what we know is committed to the schedule for build.

Joe Maxa: What's the gross margin of their products versus yours, so I'm just looking for maybe a blended, you did mention overall you still expect -- I think what 37 percent to 40 percent gross margin. I'm just wondering if the blend on the P&EM segment comes down a little bit, if there is a little bit lower margin?

Bill Clough: Come down a little bit, however, once the factory gets fully loaded, it should start to improve again. Their margins -- when we're looking at them, we're right around the 35 percent to 40 percent range depending on the volume and who they are selling to type of deal. So their margins are in line with the power group that we already have.

And they -- where it gets tricky at the overhead allocation, they get supplied into there because there are manufacturing environment. So with greater efficiencies we get greater margin in that territory. So if it's efficient, manufacturing facility will be hitting the high 30 percent margins.

Joe Maxa: OK, great. And then on the SG&A, what should we be thinking about going forward, you had some new moving pieces in there, is there a good baseline we should we looking at for overall OpEx, but I think we see SG&A being the biggest piece of it?

Bill Clough: Yes, the OpEx is going to be probably about $2 million in quarter, maybe a little less than that between the two segments for the go forward period right now.

Joe Maxa: And you're comparing that from which…

Bill Clough: Sorry, to the Q4.

Joe Maxa: Right, OK. Alright, that's very helpful. Thank you, that's all I have .

Bill Clough: Thanks, Joe.

Dan Ford: Thanks, Joe.

Operator: Thank you. Our next question comes from the line of Andrew D’Silva of Merriman Capital. Your line is open, please go ahead.

Andrew D’Silva: Good morning guys, thanks for taking my calls, I've got a couple of questions. First one has to do with adoption of GasPT. How do you feel your distributors are coming along and are the majority of them up to speed with the benefits your technology has?

And then moving over to maybe a little bit chat about large conversion or installation opportunities for GasPT, do you think one of the major hurdles you've seen so far is that a large installation with an operator ahead in taking place yet? And do you think once a large operator does install a processor pipeline that should bring more operators over the line?

Bill Clough: Sure. First, the question regarding the distributors, we have several distributors who are doing quite a good job, I think the number one is IRIS, out of Philadelphia, and they are working with Dominion and some of the other big compression companies to place the machines on those two stroke compressors.

But still, with that being said I think today we still have the laboring or we at the company to put the technology out in the market and to really drive sales from the top down. With distributors as we've talked about in the past, we'll never drive sales of any specific technology because they are going to sell what the customer wants.

And in follow-up to that, I think that's exactly where we're at. We are at a position now where all the testing has been done, everyone who has seen the device knows it works, knows it's accurate, knows it's durable, knows it's cheap, knows it's non-maintenance, they know all that and it really is now an adoption curve.

And I think you will see for example, assuming that we move forward on Snam Rete, as we're pretty confident that we will, even though Snam Rete will not have a big impact as an Italian operator on U.S. North America pipeline companies, the fact that we begin installing 800 to 1,000 to 2,000 of these machines a year is going to make an impact on other people stepping into it and I think that's what we're driving in North America right now, and in other European settings.

We think that's going to be a big, big stepping stone for us because again, as we've talked about in the past, this industry is one that acts in many ways like a school of fish, and if you can turn one or two of those fish, the whole industry changes, and that's really what we're doing, is we're changing the way that the industry measures gas. The Snam Rete is that example, they are changing the way they measure gas throughout their entire 31,000 mile pipeline system and that is -- that's a big deal for us, there is no doubt about it. So, does that answer your question?

Andrew D’Silva: Yes, I was just trying to get a sense of what we could expect after the Snam Rete, installations at least began and it seems like that could have propelled other pipeline operators over the line so that they start potentially installing as well, hopefully.

Bill Clough: Yes, we --- just to follow-up on that Andrew, one of the things that we have people doing right now -- understand that all of Western Europe measures their gas to same as Snam Rete. Snam is not unique that way, they all do what's called homogenized measurement where they actually estimate segments of their gas system and then build on the lowest estimation.

It's the same in France, it's the same in Germany, it's the same up in Norway, GasUnie in The Netherlands, it's all the same, and believe me when I tell you, they are all watching what's Snam is doing. Snam is going to take a step that will also hopefully allow them to build much more accurately and recover much more of the high end gas that they are losing right now.

And assuming that, that works out which we believe strongly that it will, we think we'll have a very good shot at moving this right up through Europe. And again, I think that you will Ð Snam is certainly the biggest pipeline company in Europe but there is plenty of other pipeline companies that are quite significant including GDF Suez, including Neon Gas, including GasUnie, and all the way up into the Norwegian areas. So they are -- they are definite gas systems that we believe will adopt us pretty quickly once Snam takes that step.

Andrew D'Silva: OK. And then just moving over to discuss some Orbital's other segments. Previous quarters it's been mentioned that you're trying to maybe expand internationally a little bit more into Africa, and the Middle East, with some of the orderization in biomethane projects.

How is that going? Are you seeing the markets still ripe in those regions or for the offerings that Orbital has? Or are you thinking that you're probably going to be seeing a lot more revenue just generated out of the U.K. in the next few quarters than any other region?

Bill Clough: I think U.K. will certainly be the most significant revenue for us because they are right into U.K., and of course, I think we're going to get IRIS revenue peeking out during the last part of this year which will be a significant addition. But on the other hand, we have some very nice projects that we're still pursuing, Venezuela specifically several in West Africa. So you know I'm not going to discount those, but I think that the predominance of the revenues from the overall U.K. will be in the U.K.

Andrew D'Silva: But as far as growth goes do you think growth will still be primarily derived from the U.K. or do you think you're going to see growth being generated from international opportunities for you?

Bill Clough: I think again not so much international, South American and Africa, I think when you talk International growth in Orbital will come from the continent, from Western Europe. They are going to obviously -- we're going to run much of the Snam Rete products through the U.K, the U.K. offices. So you will see growth there, and then I think you're going to see significant growth, frankly, in our North American operation, Orbital North America out of Houston. I mean, that's where we see incredible growth with the North American gas market.

Andrew D'Silva: And then just quickly on IRIS, what's the typical installation time horizon for that? Is it six months from when you began the project just so that we can sense (revrac) related to that?

Bill Clough: It can be anywhere from 12 weeks to as much as six months. It really depends on preparation of the individual metering stations to take on the kiosk and we will know more about that when the bidding process comes out.

But I will tell you that at least seven or eight of these stations are very, very, very in urgent need of these technologies that's why I believe that the metering engineering team from National Grid tried to get us to do those piecemeal because they know that those seven or eight installations are really on the edge of some failures that could be frankly catastrophic and so again I think there will some urgency for several of these but again it could be 12 weeks to as long as six months.

Operator: Thank you. Our next question comes from the line of Marco Rodriguez of Stonegate Capital. Your line is open. Please go ahead.

Marco Rodriguez: I wanted to fall back up here in regard to the delays in the quarter for revenues I just wanted to make sure I heard something's correctly, on the delays did I hear that there was about a $1 million on the top line is that correct?

Bill Clough: For the power group yes that's about what we saw between the two different types of delays.

Marco Rodriguez: OK. And then just kind of trying to get a little more color on the port delays, obviously a fairly well-publicized event. Just kind trying to kind of understand what sort of event steps you had taken to kind of maybe side step those issues when they were starting to come up?

Bill Clough: We did a number of things everything from air freighting in goods that we could get in cheaply or at an efficient price point at least to service our customers or air freighting in ones we had to to service our customer – (we didn't) go lying down. We also pushed our facilities to get goods out sooner as much as we could but it's a little bit difficult when one top of everything there is a capacitor or a lead time issue as well.

So we did a variety of auctions, we also tried to give through ports that have fewer problems. We have typically avoided the California ports that have longer turnaround times. And then the other aspect of when it comes to air freighting goods and is power supply is depending on the supply can get quite heavy, so that at a certain point becomes cost an efficient for what the goal is.

So we did a variety of activities in that and trying to convince them in consolidation shipments to get them out sooner. Air freighting in where we could, all kinds of activities there.

Marco Rodriguez: And then on the capacitor issue, I know that you said in your prepared remarks that you're working through that with your suppliers, trying to get some solutions out there. Can you talk maybe about a little bit whether or not that has been rectified or thus far or how long do you expect to sort of an impact to hit your results?

Bill Clough: As I mentioned it's an ongoing issue, the whole power industry is dealing with this. So typically it takes three to six months for these things to resolve, it's what it is -- it's now been extend to the customer, so their lead times is extended as well. They have that understanding, but we're looking just like all of our competitors are doing as well looking to bring in extra supply so that we don't have as long delays we're seeing right now. But we're working on it, and it should turn around in the next few months, but it is an issue currently.

Marco Rodriguez: Got it. And then just taking a look at the balance sheet, inventory kicked up probably substantially sequentially in year-over-year I'm assuming some of that's from obviously Tectrol. Can you kind of quantify what is extra from Tectrol there?

Bill Clough: Absolutely can. Our inventory increased related to Tectrol about $3.1 million during the quarter.

Marco Rodriguez: And then last quick question, I will jump back in queue, can you talk a little bit about the intangible impairment you took in the quarter?

Bill Clough: The $2500 charge, yes that was some patents that we elected not to continue to support, some patent applications.

Marco Rodriguez: And the patents revolved around?

Bill Clough: They were around one aspect of the Solus technology, an aspect that we saw just wasn't necessary to protect. There are other areas within that product line that are protected.

Operator: Thank you. Our next question comes from the line of Jim Kennedy of Marathon Capital. Your line is open. Please go ahead.

Jim Kennedy: On the electronic side, could you just spend a couple of moments and talk about the potential impact of having Mouser, how additive that may or may not be internationally and then also could you size up – you all talk about Novum and Solus kind of what that is and how large a market there is for those products?

Bill Clough: Sure, Mouser is a very large, they are one of the larger distributors in the electronics industry in the Top five or six. They do have a global footprint, which is helpful. So in the first year, though, we kind of expect them to trend, similarly to what we had with future electronics where it's a crawl, walk, run as our product portfolio gets introduced through their catalog to customers. So their model is more not necessarily high volume so it is going -- but it does have a reach that our existing distributors don't necessarily have the same customer base.

So we expect it to start to generate, it's generated some turnover already but for the queue it went live in March to the industry so it didn't do a ton. We would expect -- I would say smaller incremental revenues this year and a larger churn next year like what we had with future electronics' launch.

And then internationally we're really are trying to push into Europe, we're trying to push into Asia more and having three distributors that are all targeting at global market is going to help out quite a bit. So despite the downturn in the EMEA region that there has also been going on.

It should help quite a bit, and as you know, Mouser is a Berkshire company, and they are always strategic about what they are doing. So they are going to be pushing our product line, and we will be supporting them to do that as well. So we're pretty excited about having the third -- them on. It's a one more validation that the power group is adding the product lines and focusing on the right technologies for our industry.

So having those three out of the larger companies actually all of the distributors have all kind of wanted us and we have been able to pick and choose when and where we want them so they don't essentially cannibalize one other. So we're pretty happy with this launch so far,

Jim Kennedy: OK, and then Novum and Solus?

Dan Ford: Yes, the follow-up on that Jim, actually Novum and Solus, Novum is our complex or intelligent power system which really is our ability to serve intelligent or digital power to the Board level. Solus is the typology that really makes us able to deliver a very high density, very powerful power supply chip basically twice the power, twice the density and what's available to marketplace now.

That’s one of the reasons we’re so excited about the acquisition of Tectrol or CUI-Canada because what we had before that acquisition was we had everything from the power supply, the AC to DC converter down to the Board level, now we have everything from the wall into the plate server through and to the surface of the (blade).

So it really gives us the intermediate BUS architecture at a platinum level with that technology that’s very, very unique. As far as the size of the industry, it's hard to say. There is a report out by Darnell that there is a lot of industry research that talks about the digital power industry going in excess of $10 million to $12 billion over the next few years.

We think we’re at the forefront of that, we don’t how much of that we can acquire but we do believe that there is a significant amount of market that we can acquire and again I think that this CUI-Canada acquisition will enhance that ability.

Jim Kennedy: Switching to the gas side, what can we say at this point about the dominion trials and I will use the word negotiation or where are we in the process of trying to secure contract there. Secondly you mentioned Mitsubishi, what do we know there, how long is our equipment being in the field, when do you expect feedback there etcetera?

Bill Clough: Dominion, I can tell that the testing was completed and successfully completed at the end of last year, it's now in their hands, and it's a budgetary issue. They certainly want to roll the technology out, across their entire fleet. It's a matter of them budgeting and their processes. There is not much I can tell about that because it's not a visible or a transparent process.

It's very internal to them. They have told us very openly that they want to roll the GasPTi which is the $55,000 unit out across their entire fleet and they have been very open about the fact they will talk to customers or other potential customers they have already talked to Spector for example and are offering to talk to others to confirm how well the testing went but again I can't really shed much light on their process because it's something that’s not transparent to us.

Much of the same applies to Mitsubishi heavy industry, they have told us that they want to test these units in Thailand.

I think we have talked about the fact it's because Thailand has two very diverse gas streams, one with close to 20 percent CO2 and one with less than 5 percent CO2, they have not told us their test procedure nor they have told us the time frame.

But again, they have indicated to us the different works the way we have told them it does, and, frankly, it's worked that way on other device we have put it on that they would like to roll it out again broadly across their fleet, but I cannot give you any insight to them either because like the Dominion, they are quite secretive about what they are doing and how they are doing it.

Jim Kennedy: So they have not indicated a timeframe where they want to put it in for a year or six months or whatever?

Bill Clough: They have not. They haven't told us that at all. And I will tell you as a note Dominion had talked about a six month test. Dominion took our device and put it in to their system on one of their two stroke compressors in December, the gas (commado) was on that same system I guess fortuitously for us broke down.

And so, the machine began running on our device, whether they like it or not, because they had nothing else to run it on. And it performed so well in that two and three week period of time they just continued it and that was the end of test. So again while they might tell me they were going to six months they didn't, they went two or three weeks where they were running only our system and were very, very impressed with it. But to answer your question, Mitsubishi has not given us any indication at this point.

Jim Kennedy: OK and then last but not least can you remind us I believe that you have the authorization to do share buybacks?

Dan Ford: We do actually we have that and frankly I will tell you that for the first time in nine months for first time all this year and like say for almost nine months a week from today both the company and its executive team will be cleared finally to buy some shares, and, frankly, if this stocks stays where it is right now I don't want to make too many forward-looking statements, but I think you will see some buying.

Operator: Thank you. And once again, ladies and gentlemen, if you would like to ask a question, please press star and then one.

Our next question comes from the line of Alex Blanton of Clear Harbor Asset. Your line is open. Please go ahead.

Alex Blanton: I'm going to crew up something on this, capacitor lead time issue. That has nothing to do with reports right?

Bill Clough: No. That's a support issue, that's the supply shortage within the industry.

Alex Blanton: OK, now what caused that? I mean, why all of a sudden are we short capacitors?

Bill Clough: To be anywhere from a shortage of different components that go into the capacitors themselves. But to be honest with you, I don't have that information as to why that the capacitor themselves specifically are short.

Alex Blanton: You don't?

Bill Clough: But in the past, we have seen different reasons for key (supply) shortages in this space.

Alex Blanton: Well it can either be fire in somebody's plants, it can be an increase in demand that wasn't expected, a company goes out of business. I mean you don't why you can't get capacitors?

Bill Clough: I specifically have not done against that, Alex. I'm sure that our purchasing and our engineers are well-aware of what it is.

Alex Blanton: I wonder if you could find out and let me know offline?

Bill Clough: Yes, I will.

Alex Blanton: OK. Thank you. The second question is you mentioned in the remarks that you expected the meter exceed your full year targets. How much can you share? What your targets are?

Dan Ford: We don't do forecasting, we don't internal reporting of or external reporting of numbers. I mean, there are consensus numbers out there that our analysts have put out that the others in the industry have put out, but we don't share internal numbers out.

Alex Blanton: Well how do you feel about those consensus numbers?

Dan Ford: I feel that those consensus numbers are very reasonable.

Operator: Thank you. And that does conclude our question-and-answer period for today. I would like to turn the conference back over to Mr. Bill Clough for any closing remarks.

Bill Clough: Just in closing again as we have talked about now over and over again this quarter was not as strong as wanted it to be or hoped it would be. I think I've talked to many of you about this; this is not a quarter-by-quarter story. We believe this is a growth story, and to grow an industry or a company like ours you've to make investments, which we have done this quarter.

And we feel, again, as we have mentioned at the outset that this second quarter will be much stronger, and then as we move through the year this is going to be a very good year for CUI Global.

We think it is a breakout year for our natural gas products, and I think everyone who has been involved in the company will be quite pleased with the results as we move through the year.

With that being said, I want to thank all of you for your time and attention. And obviously, if you've questions or need some more information, I'm almost always available, as is Dan, to talk to you, and we will be happy to do that over the course of the next quarter.

Again, thank you. And thank you Casey, and thank you Dan.

Operator: This concludes our call. You may now disconnect.

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