

**NU HORIZONS ELECTRONICS CORP**

**July 9, 2007  
4:15 p.m. ET**

Operator: Good day and welcome to the Nu Horizons Earnings conference call for First Quarter Fiscal Year 2008. Today's call is being recorded.

For the purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995, our statements today may include certain forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially. Such statements are based upon, among other things, assumptions made with information currently available to the management, including management's own assessment of the Nu Horizons industry in competitive landscapes.

During the presentation, your line will be in a listen-only mode. At its conclusion, there will be a question-and-answer session. Instructions on how to signal for a question will be given at that time.

Now for opening remarks and introductions, I would like to turn the conference over to Mr. Richard Schuster, President and Chief Operating Officer of Nu Horizons Electronics Corporation. Please go ahead, sir.

Richard Schuster: Good afternoon and welcome to the Nu Horizons First Quarter of Fiscal Year 2008 Conference Call. I am Richard Schuster, President and Chief Operating Officer of Nu Horizons Electronics Corporation. With me here today are Arthur Nadata, Chairman and CEO, and Kurt Freudenberg, Chief Financial Officer. Kurt will give an overview of the financial results for the first quarter of fiscal year 2008. I will then provide a brief market overview and synopsis of our company's performance along with some comments on the industry in general. We will then turn the meeting over to questions from our callers.

At this point I would like to turn the call over to Kurt.

Kurt Freudenberg: Thank you, Rich. Net Sales from continuing operations for the first quarter of fiscal year 2008 increased to \$192,300,000 from \$187,800,000 in the comparable period last year, an increase of 2.4%. Sales in our core global electronic components distribution division were up \$25,600,000 or 21.3% for the first quarter of fiscal 2008, compared to the prior year. Core electronics distribution sales were negatively impacted by a general softness in the passive component market due to over-capacity. This increase in core electronics sales was offset by a \$17,400,000 decrease in sales of systems, compared to the prior year first quarter. As reported in the third quarter of fiscal 2007, the systems division had a loss of business with certain customers for system products, along with a general softness in the business.

Net income for the first quarter decreased to \$1,800,000 compared to \$3,200,000 in the year earlier period. Diluted earnings per share is 10 cents per share for the first quarter of fiscal 2008. The decrease, compared to the same period last year, is primarily attributed to our investment to date of \$310,000 to establish operations in Germany, a \$1,600,000 aggregate decrease in gross profit contribution from our systems business and some softness in our passive components business. The core global electronic components distribution division had net income of \$2,300,000 for the first quarter, a 168% increase over the prior period.

Sequential quarterly consolidated sales increased to \$22,200,000 or 13% over the fourth quarter of fiscal 2007. In addition, sequentially net income increased \$950,000 .

Overall gross profit margin for the first quarter of fiscal 2008 was 15.4% as compared to 15.1% in the prior year.

As a percentage of sales, operating expenses increased to 13.3% compared with 11.8% in the prior year. Operating expenses for the current quarter ended May 31, 2007 increased \$3,500,000 to \$25,600,000 from \$22,100,000 for the prior quarter. The dollar increase in operating expenses was primarily related to personnel-related costs resulting from increased staffing levels and commissions to support increased sales, the inclusion of normal operating costs of \$1,900,000 relating to operations of DT Electronics which was acquired on August 29, 2006 and are not in the prior period, and start-up costs for our operations in Germany.

As a percentage of sales for the first quarter of fiscal 2008, interest expense remained constant when compared to the prior period.

Our balance sheet is strong and liquid with \$193,000,000 working capital and a current ratio of 3.5:1 at May 31, 2007. Our days sales outstanding was 60 and our inventory turned 5 times on average. At May 31, 2007, our outstanding debt was low at \$52,200,000 and we had an aggregate \$75,000,000 available on our bank credit lines.

In the first quarter of fiscal 2008, approximately \$960,000 of cash flow was used by operations.

Now, I will turn the call back to Rich.

Richard Schuster: Thank you Kurt. We have highlighted the decline in our systems distribution business of three quarters ago and have not yet seen substantial recovery in that business. We will talk more about our plans there in a minute. Notwithstanding that challenge, we continued our strong market share growth in our first quarter of fiscal 2008 and achieved very strong quarter to quarter and year to year growth in our core electronic components distribution business. We grew this business substantially and recorded new semiconductor distribution revenue records in the Americas, APAC and Europe, including sequential quarters Q1 FY2008 vs. Q4 FY2007 growth of 13% in the Americas, 11% in APAC and 18% in Europe. We grew in both demand creation and fulfillment revenue, notably we recorded strong growth in our higher margin demand creation activity. The number of new Design Wins was stable from a near record in FY07 Q4 while we recorded 11% growth in Design Win Revenue from Q4 FY07 to Q1 FY08. Additionally, we continue to improve the semiconductor distribution business with new customer awards and a further increase in our customer base of 9% from Q4 Fiscal 2007 to Q1 Fiscal 2008.

We are continuing to strengthen our supplier partnership base, which expanded substantially in FY2007, and in the first quarter of fiscal 2008 we also announced new partnerships with Silicon Motion, Silicon Image, and Synqor.

Our margins in the electronic components distribution business were stable quarter to quarter and year to year, in fact they have increased by 30 basis points in the current quarter compared to the first quarter of FY2007.

From a global business perspective, our expansion in Europe continues, first with our start up of Nu Horizons Electronics GmbH then our acquisition of Dacom Sued on June 6, 2007. This acquisition has helped us quickly expand our customer base in Germany and is expected to enable us to add revenue and gross profit dollars to offset the costs of our German operations. We are continuing to execute our expansion plans in Europe, we are now in the two largest distribution semiconductor markets there, with total area market coverage of >50%.

Looking forward, we see mixed reports of market conditions for this business with most forecasters expecting little or no growth for the semiconductor industry on a worldwide basis in Calendar 2007. We believe that with our strengthening supplier, customer and employee base worldwide we are positioned for continued gains in market share in all regions. Our goal is to continue our expansion in to Europe through a combination of start up and additional partnerships and/or acquisitions that are designed to provide us with a strong market position in that market while we continue to increase market penetration in the Americas and APAC by increasing the number of customers and marketshare.

As discussed earlier, the systems business has had a negative year-over-year affect on the business as we have seen revenue and associated gross profit drop significantly over the past three quarters. Unlike our other business lines, our systems business only carries products from one supplier and is restricted to selling only in North America. This highly-limited business model is susceptible to demand swings that do not reflect the market as a whole. We are managing our expenses in an effort to ensure that the segment is not dilutive to the rest of the business but it is not positively contributing to company profitability at this point. Recently, we have begun significant steps to turn this business around and to once again achieve the type of growth and profitability that we need from the business. We have hired Christopher Winslow, an experienced leader in the value added systems distribution business, in a new position as Senior Vice President for Nu Horizons Systems Distribution Division. We intend to establish a new strategic plan for this business, which will be completed in the near term. We expect to begin implementation of this strategic plan over the next several months.

Now, I will turn the call back to Kurt Freudenberg.

Kurt Freudenberg: Thank you, Rich. As many of you know, the Company and its Titan subsidiary each received a subpoena from the Securities and Exchange Commission requiring them to produce

documents related to their business relationship with Vitesse Semiconductor Corp. Both subpoenas were captioned "In the Matter of Vitesse Semiconductor Corp." We are continuing to fully cooperate with the SEC. That is all that we can say at this time.

Thank you, and now we would like to open the conference call to any questions you may have.

Operator: Thank you. The question-and-answer session will be conducted electronically. If you do have a question concerning today's conference, please press star one on your touch-tone telephone at this time. If you are using a speakerphone, please be sure that your mute function is turned off to allow your signal to reach our equipment. We'll take as many questions as time permits and proceed in the order in which you signal us. Once again, that is star one to ask a question.

And we'll go now to Matt Sheerin with Thomas Weisel.

Matt Sheerin: Yes. Thank you and good afternoon everyone. A couple questions. One, could you tell us what the book to bill ratio is right now and how it trended through the quarter and what does the outlook for the August quarter looks like?

I know you don't give guidance, but directionally how are things looking?

Kurt Freudenberg: The monthly bookings right now are like probably about a one to one relationship, and that's an estimate. And the outlook for the quarter is good.

Matt Sheerin: OK. I know you had strong sequential growth in Asia in the May quarter. I think it grew something like 70 percent or so. Why did it grow so much? Was that off of a weak base or are you starting to ramp new suppliers in Asia now?

Arthur Nadata: This is Arthur, Matt. I'll answer that. There were a number of things which we're seeing a significant growth in Asia. A lot of it is new customer recognition. I think you might have seen the ad that came out about our presence in China.

Some of it has been some stronger stability and personnel and some upgrades and some strong personnel, as well as you're just growing market share. But most of it is coming from a new and expanding customer base.

Matt Sheerin: OK. And I know that the gross margin was down sequentially, does the mix shift of higher sales in Asia have something to do with that because margins are lower, or did NIC also play a role there?

Richard Schuster: Yes. I think NIC did play a role. The actual GP's for NIC were stable but the volume was down due to some significant customer loss. And that specifically came from some of those customers migrating to the Asian market, where we still see some very heavy pricing pressure due to over capacity.

Matt Sheerin: And what's your stance there, Rich, in terms of competing on pricing? Are you just walking away from some of that business?

Richard Schuster: Well it's a combination. There are some levels of business that we will not get involved with because of very low margins and backend liability, inventory liabilities. On the other hand, on a positive note, we've negotiated some very competitive prices with our factories. We've managed to get them down to the level that we really need to get back some of the business and get back to growing the business.

Matt Sheerin: OK. And my last question is a bigger picture question, Arthur, concerning your long term operating margin bills. I know you've talked about getting the four to five percent range an hour,

just around two percent. So what is it going to take for us to get to three and to four and beyond that over the next few quarters?

Richard Schuster: Well, certainly restructuring and getting our systems business back on track of what we want it to be and then, as you just heard in this script, we are working on that. We have a lot of positive things that are available to us. We're doing a stronger evaluation now of that business.

But I think in general, when some of these investments start to show a profitability from it a lot of the new people, the expansion, certainly the consolidation in Europe and us growing in Europe. There's a lot of training with new people, new customers coming on board, new suppliers globally, all over the world.

So these things just have to generate some revenue and margin, and I think you'll start to see that very shortly.

Matt Sheerin: OK. Thank you.

Operator: And we'll go now to Eliot Glazer with Dupasquier.

Eliot Glazer: A question for Rich. In the passive area, did you loose some market share to AVX, some sales in this area were up?

Richard Schuster: I really can't say specifically that we lost to AVX or anyone else but certainly they may have been a part of that. What surprises me, and we've probably been talking about this for six years now, is that prices continue to come down.

And the fact that there's any type of slow down or inventory correction creates that over capacity which puts more pressure on margins because our competitors want to keep market share, so obviously they're dropping price per market share.

What particularly hurt us is that some of our programs that went to Asia we were caught a little bit off guard by the type of pricing that was introduced. And so we've addressed that with our suppliers and we think we've gotten the pricing back in line to where it should be to meet the competition, but in the shorter term we took some hits.

Eliot Glazer: Looking forward to the next quarter or so, what is the trend for capacitor consumption in general? Which way is it heading, up, flat or down?

Richard Schuster: I think consumption will be heading back up. I've looked at some numbers regarding cell phone production, LCP, TV production and it looks like those segments – and also motherboard production, those segments are looking to grow.

I just saw a report today coming out of Japan. So I think that the consumption will start coming back and hopefully that will stabilize pricing and put us in a better position as well.

Eliot Glazer: I'd like to ask Arthur a question. Getting back to the systems business –

Arthur Nadata: Yes.

Eliot Glazer: Obviously, your one supplier here is Sun Microsystems. I know they had just a dreadful March quarter –

Arthur Nadata: Yes.

Eliot Glazer: – Part of the problem being that the Sun product just isn't selling the way it used to.

Arthur Nadata: Well that's part of it Eliot, but also there's a number of wrap around lines that could enhance the business. Right now, we outsource a lot of the integration -- pretty much all of it.

And there's much more we could do by taking on a broader supplier base, as we have done in the component business which filled many different technologies that enhance the applications and enhance the integration of the business, besides taking on other lines that can complement Sun in the server market.

So there are other things that we can do. We are getting good advice from this gentleman we hired, (Barry Savvy), been in the industry a long time. We know the system's business is a good business. It is a good growth business, but we can't grow it the way we presently have it being a one horse cart.

And we realize that fact and we have a number of opportunities that within the next – probably next quarter – or like Rich said, several months to a quarter we will make some decisions on what we will do with the business, how we're going to grow it. Or in fact, we could possibly get out of it. I mean that's always an option.

But we do see some very positive opportunities and until we sign on the dotted line we're not sure how that's going to turn out.

Eliot Glazer: Thanks for the information.

Arthur Nadata: You're welcome.

Operator: And we'll go now to Rob Damron of 21st Century Equity.

Rob Damron: Hi. Good afternoon. I wanted to talk about the operating expense line. If we look at the operating expenses sequentially, could you just go through for us again the differences between the fourth quarter and the first quarter, the incremental expenses, where those were and then, maybe give us some guidance into what incremental expenses we might see going forward?

Kurt Freudenberg: I don't have all the quarters in front of me sequentially for the operating expenses but I will tell you that from last year same quarter to this year. The first thing that is a large item is that we didn't have DT Electronics in our numbers. So that was approximately \$1,900,000 of additional expense.

We have also added some folks in Asia and also in Germany, the staffing of Germany since last year. So that adds to the expense. I don't expect – from a headcount standpoint, there'll be much more of that. And that's really the bulk of it. There's no other unusual items in there other than adding some heads for Germany, in Europe and a little bit in the U.S.

Rob Damron: OK. And since you opened your office in Germany you've made this acquisition in Germany as well. Was that basically in the same city there or, you know what are the plans in terms of consolidating the acquisition with your office and are there any synergies there?

Arthur Nadata: Yes. Hi Rob. This is Arthur. Yes. The strategy was to do small acquisition in Greenfield, Germany. And that's basically what our model was. We hired on Nu Horizons about 12 or 13 people. We picked up a number of people with the Dacom acquisition. We are in the middle of integrating that together now.

They are in our single sales office Munich. The distance, they were about a half hour away – their office from ours. We're integrating our systems presently. They had a number of suppliers – I think three suppliers that we had so – which worked out well.

And now we're going through some training and a number of our suppliers have expanded into Germany as well, including Xilinx, has gone forward with us. So now it's just a question of getting to know the customer base.

The main reason for the Dacom acquisition was to pick up a number of customers that they've already had, existing customers. It was about 800 or 900 customers. They've been in business, I think, over 20 years. They bring a very good customer base.

In Europe, to deal with some of the tier one customers you must have a customer approval number and it takes a very long time for a new company to get that in some of the larger customers. Well DT – I mean, excuse me, Dacom had that with pretty much all the customers in the German market.

So that was our plan and now we're getting to meet those customers, introducing our lines, our people and going forward.

Rob Damron: OK. That's helpful. And then just last question, I know you signed up On semiconductor not long ago. Have you begun to see incremental sales from that line?

Arthur Nadata: Well yes, we are beginning to see some sales but primarily a lot of what we're doing is demand creation, as we do a lot of our other lines. ON has a very strong line of proprietary demand creation products and that's more of our focus today.

Even though we're going after the commodity business, which you know is just a question of pricing, we are talking ON demand creation products for ON very strongly.

Rob Damron: OK, excellent. Thank you.

Arthur Nadata: You're welcome.

Operator: And we will go now to Amit Dayal of Rodman & Renshaw.

Amit Dayal: Good afternoon. Thank you for taking my question. Was there any particular supplier that recorded for a larger portion of revenues this quarter?

Arthur Nadata: Nothing abnormal. I don't believe, right Kurt? I don't – nothing unusual. No.

Amit Dayal: OK, perfect. And one final question on the margin side. Should we expect margins to remain at these levels for the next one or two quarters until you see some traction on the systems business, or should we expect these to come in higher now that you are signing on some new suppliers?

Kurt Freudenberg: I would expect them to remain stable, where they are now.

Amit Dayal: Yes. OK. Thank you.

Kurt Freudenberg: You're welcome.

Arthur Nadata: You're welcome.

Operator: As a reminder, that is star one on your touch-tone telephone to ask a question. And again if you are using a speakerphone, please be sure that you're mute function is turned off to allow your signal to reach our equipment. We'll pause for just a moment to assemble the queue.

And Mr. Schuster, it appears that there are no further questions at this time. I would like to turn the conference back over to you for any additional or closing remarks.

Richard Schuster: I would like to thank everyone for participating on this conference call. We welcome your questions and look forward to the next conference call. Thank you and have a good day.

Operator: This does conclude today's conference. For the replay of today's call, that will be available today beginning at seven o' clock in the evening Eastern Time and will be available until July 17<sup>th</sup> by dialing 888-203-1112 or 719-457-0820 and using pass code 8954832.

We thank you for your participation on today's conference. Have a wonderful day.

END