

**CUI GLOBAL, INC.**

**Moderator: TBD**  
**August 11, 2015**  
**9:00 a.m. ET**

Operator: This is Conference # 90818799.

Operator: Good Afternoon Ladies and Gentlemen, and welcome to the CUI Global Inc Q2 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 follow at that time. If anyone should require any assistance during the conference please press star then zero on your touchtone telephone. As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference Mr. Casey Stegman of Investor Relations. Sir, please begin.

Casey Stegman: Thank you and good morning. Welcome to the CUI Global 2015 second quarter Earnings Conference Call, we appreciate you joining us today. With me on the call is Mr. Bill Clough, Chief Executive Officer; and Dan Ford, Chief Financial Officer. The purpose of today's call is to review the Company's financial results for the second quarter, as well as provide you with some additional color on the business going forward.

Following management's remarks, the call will be opened up for questions.

Many of you have seen the company's release that was issued yesterday. If you haven't, it can be accessed to the Company's website at [www.cuiglobal.com](http://www.cuiglobal.com). A replay of this call will be available until August 22nd, details can be found in the press release. 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 yesterday or from the Investor Relations section of the website.

As a reminder, this call will contain certain forward-looking statements within the meaning 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 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 and 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, and 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 review the financials in more detail. When Dan is finished with his remarks, I'll provide some additional commentary on some of the key initiatives we are currently working on at CUI Global. We'll then open the floor up for Q&A.

First, I'd like to highlight the change in the company's communication related to divulging customer name. Due to the type and size of contracts we engage in as well as market conditions, we recently adopted a policy, not to identify parties who are selling to by name. From time to time you may have seen announcements from us identifying the substantive sale in the order partnership but in a regular course of business, we do not share company names. We hope you understand this change of practice which will benefit

our customers as well as CUI and should actually allow us to be more informative in public announcements.

Turning to the results, there is positive momentum in CUI's business supported by a strong second quarter. We are pleased with top and bottom line results and believe our current business and future opportunities will lead to a solid second half of the year performance.

Revenues fell \$23 million, an increase of 20 percent compared to the prior year. From a second perspective revenue for the power and electromechanical segment contributed \$16.6 billion, an increase of 23 percent from Q2 14. And the gas segment contributed \$6.3 million, an increase of 12 percent from the prior-year quarter, back learning strong for both business segments representing \$40.9 million of open customer orders as of June 30 which makes us optimistic as we look ahead.

The power and electromechanical segment which represented 72 percent of our revenues in the second quarter showed positive revenue growth, both year-over-year and sequential. While we did the Tectrol acquisition, now called CUI Canada that closed in March. We've estimated that CUI Canada would add an incremental \$10 million to \$12 million in revenue to the P&E segment in Fiscal Year 2015, and we still believe that will be in a good range. We continue to expect the acquisition to breakeven or even lose some money this year as we move forward with increased efficiencies improvements and sales efforts.

The gas segment representing 28 percent of our revenues also showed positive year-over-year and sequential growth. We are starting to see traction developing at both VE and GasPT technology, significant progress and trace element detection and an uptick with some (inaudible) customers, in particular our ability to quickly and accurately detect mercury has become more and more recognized within the industry because mercury is highly corrosive to aluminum and therefore can create catastrophic damage to liquid natural gas terminals. We have been very aggressive in that market. However we are beginning to see significant results in Australia and elsewhere.

Earlier this month we announced that we had received approval from one of the U.K.'s largest pipeline operators to install and commission four of its previously purchased (high-risk gas). We also received a purchase order from the same customer for additional (high risk gas) to be produced at our U.K. facility for insulation in air conditioning later this year.

Our integration efforts in CUI Canada continue. This acquisition has already enhanced the capabilities of our power group and among other things has broadened the customer base for our proprietary electronic product line. We continue to analyze our ability to manufacture more of our product line in Canada.

Let me turn the microphone over to Dan Ford, our CFO, so he can run through the numbers in more detail.

Dan Ford: Thank you, Bill, I will discuss not only the second quarter results, but year-to-date 2015 as well. As Bill mentioned the company's revenues were \$23 million for the quarter, up 20 percent from the second quarter of 2014. Year-to-date revenues were \$39.8 million, up 10 percent from the first six months of 2014. The cost of revenues for the quarter was 14.7 million versus 11.5 million for the same period last year. Cost of revenues as a percentage of revenue for the three months ended, increased to 64 percent from 60 percent during the prior-year comparative period. And for the year-to-date period, cost of revenues was \$25.3 million versus \$21.4 million for the comparable period in 2014.

As a percentage of revenue, the cost revenues for the year-to-date period increased to 63 percent from 59 percent during the prior-year comparable period. The cost of revenues as a percentage of revenue will vary based upon the product mix sold during the period, the mix of natural gas systems sold during the period, contract labor necessary to complete gas related projects and is also dependent upon the competitive market in which the company competes as well as foreign exchange rates.

The company expects 2015 cost of revenue to remain in the low 60 percent of revenues range during 2015, consistent with the past three fiscal years and

resulting from consistent margins and core power segment products, lower margins on gas integration related projects and higher margins on technology-based products offerings in both segments. The (un-audited) sales or our backlog at June 30th, 2015 was a consolidated \$40.9 million, and of that the power and electromechanical segment held an audited backlog of customer orders of approximately \$23.7 million and the gas segment health approximately \$17.2 million on un-audited backlog.

Moving on to the financial overview. Gross profit for the quarter was \$8.3 million or 36 percent as compared to \$7.7 million, or 40 percent in the second quarter 2014, and \$14.5 million or 37 percent for the year-to-date period, versus \$14.7 million or 41 percent during the prior-year. For the three and six months ended June 30, 2015, the power and Power and Electro-Mechanical segment generated gross profit margins of 37 percent, while the Gas segment generated gross profit margin of 34 percent and 35 percent, respectively.

SG&A expenses increased by \$1.4 million to \$7.9 million during the second quarter compared to \$6.5 million for the same period in 2014. SG&A expenses increased to 35 percent as a percentage of revenues compared to 34 percent for the prior year. For the six months ended June 30th, the SG&A increased \$4 million to \$16.7 million versus \$12.7 million during the prior year period and as a percentage of revenue increased to 42 percent from 35 percent for the same comparable period.

The increase in SG&A costs for the three and six months versus a prior year comparable period are primarily associated with the addition of the SG&A activities of Orbital Gas Systems North America and the addition of the operations related to CUI-Canada. The remaining increases in SG&A are associated with the ongoing activities to reach new customers, promote new product lines including Novum, GasPT, IRIS and VE-Probe as well as continued new product introductions.

The company reported a net loss of \$504,000 or \$0.02 per share EPS for the quarter ended June 30, 2015, and a prior year period the company reported a net loss of \$66,000 or \$0.00 per share, and for six months ended June 30th,

the company reported a net loss of \$4.6 million or \$0.22 for this year compared with a loss of \$554,000 or \$0.03 per share in the prior year period.

The net loss for the three and six months ended June 30th was primarily the result of increased selling, general and administrative expenses related to the opening of Orbital Gas Systems, North America facility in January, 2015 and the addition of CUI-Canada, Incorporated in March 2015, coupled with the ongoing amortization of intangible assets related to the Orbital Gas Systems Limited and CUI-Canada acquisitions.

Adjusted net income which represents net income or loss, plus the amortization expense of the intangible assets acquired with those two acquisitions and plus the expense associated with stock and options issued for compensation royalties and services. For the second quarter, it was \$101,000 or \$0.00 per share, as compared adjusted net income \$1 million or \$0.05 for the second quarter of 2014. Year-to-date adjusted net loss was \$3 million or \$0.14 per share, as compared to net income of \$1.6 million or \$0.08 per share in 2014.

As of June 30, 2015, CUI Global held cash and cash equivalents of \$5.2 million, a decrease of \$6.5 million since December 31. The company had additional short term investments of \$4 million at June 30th, a decrease of \$7.2 million since December 31, 2014. Operating activities generated negative cash flow from operations of \$6.9 million during the six months ended versus positive cash flow in the prior year period of \$49,000.

The change in cash used in operations is primarily the result of the net loss for the six months ended June 30th, before non-cash expenses, as well as changes in assets and liabilities, particularly the assets and liabilities associated with the activities of Orbital Gas Systems North America and CUI-Canada.

Further to the overall change in cash and cash equivalents and short term investments, the company has utilized those assets to fund the acquisition of CUI-Canada this year, as well as to fund investments in property and equipment including the construction of the new manufacturing and research

facility for Orbital Gas Systems Limited in the United Kingdom, which is expected to be complete during the third quarter.

As of June 30, 2015, the company had 20,793,207 common shares outstanding. EBITDA for the quarter was a profit of \$180,000 or \$0.01 per share versus a profit of \$868,000 or \$0.04 per share for the same quarter in 2014. EBITDA for the six months ended June 30, 2015 was a loss of \$2.8 million, or \$0.14 per share, as compared the profit of \$1.6 million or \$0.08 per share for the first six months of 2015.

Adjusted EBITDA for the second quarter of 2015 was 376,000 or \$0.02 per share per share versus \$1.3 million or \$0.06 per share in second quarter of 2014. Adjusted EBITDA for the first six months of 2015 was a loss of \$2.2 million or \$0.11 per share, compared with \$2.2 million profit or \$0.10 per share profit for the first six months of 2014. The EBITDA and adjusted EBITDA were primarily impacted by the previously discussed items regarding operating costs associated with launching overall gas systems in North America.

And now I will turn the call back to Bill.

Bill Clough: Thank you, Dan. Before we begin taking questions, let's talk in more detail about some of our new technology accomplishments.

In the second quarter, we continue to see increased demand and interest in our GasPT and VE Technology product lines. We delivered and received purchase orders for 7 GasPTIs and have another 22 units out to bid. Most significantly, we have now received NMi certification for our device including full electromagnetic compatibility certification.

It's now fully qualified, the device could be deployed across the entire European Union. We have been prequalified as a potential supplier as one of the largest pipeline companies in Europe and fully expect their significant near-end project to move forward in the second half of the year with purchase orders for 2016 delivery of product.

Moving to the VE technology sale, revenue is also quite positive. In the second quarter we delivered an additional 10 VE sampling systems bringing out total delivery to 108 units this year. We delivered additional 89 VE thermal well applications bringing the total deliveries of thermal wells to 412 units. Furthermore we have outstanding purchase orders for another 63 VE sampling systems representing more than £1.4 million or \$2.2 million in revenues. We continue to receive enquires and are working with numerous potential VE technology customers.

Additional highlights from our second quarter include the reception of our NMI certification for the GasPT completing all necessary EU requirements. We received orders for 30 additional VE Mercury measurement systems for large Australasian LNG project.

We delivered 99 additional VE Probes/Sampling/Spares to a variety of new customers. We continued to incorporate CUI-Canada and the new Houston offices for Orbital Gas. We successfully closed out all of the existing 2014 Bio-Methane Projects; and we began operational testing with large U.K. pipeline partner of a new IRIS light kiosk.

In conclusion we are pleased not only with a solid second quarter but also with a strong backlog, continued interest in traction with our new technology, as well as initial interactions with customers about our new product portfolio acquired with CUI Canada. We look to build on the solid second quarter and the significant recent company developments including new partnerships, CUI Canada acquisition and the new Orbital Gas Systems North America operations.

These, together would strengthen the business and product demand, places us in a strong position as we enter the second half of the year. Finally, I would like to thanks everyone for your continued interest and support of CUI.

Now, let's open the floor for questions.

Operator: Yes, sir. Ladies and gentlemen, at this time if you have a question please press star and then one on your touchtone telephone. If your question has

been answered or you wish to remove yourself from the queue please press the pound key. Again to ask a question please press star and then one.

And our first question is from Joe Maxa from Dougherty & Co, your line is open.

Joe Maxa: Good morning, thank you.

Bill Clough: Hey, Joe.

Joe Maxa: Bill and Dan, I just wanted to go through a little bit more on your thoughts on the opportunity in Italy. The indication is that you are still expecting PLs to come in the second half of the year, I think you said the revenue starting in 2016, there is no changes from previous expectations on that. Can you give us a little more colour on the process and perhaps so where you are at in that status?

Bill Clough: Yes. I think the centralized certification is a big deal, frankly it's the final step that we need to make sure that we could be deployed across Europe which we now have incomplete. And every indication is that they are moving forward as I thought for Orbital Gas.

They are still very committed to the project. They are still (talking) about (multi-thousands) tracking of units, in excess of 3,000 units. They are still targeting installations to begin first quarter of 2016, which means they're going to have to start ordering some time later this year. So we see the project moving forward as it has been discuss previously. There's been no change. Everything is very positive.

In a large part what we are doing now, frankly, Joe, as you might have mentioned is setting ourselves up, to have the corporate supply chain to give them what they need. We've got now design work being done and concluded on our calibration of operation that we're going to have at our new facility.

We have got full confidence now in our supply chain when it comes to individual suppliers and in (inaudible) they are going to build and in fact we are going to start ordering units in the very short-term to start building a

backlog, so we are ready to deliver since they need product. And that is, as I think you know and I have talked about it in the past, we have several hundred units on the shelf ready to go. So we're very prepared to do quickly when they want that movement to begin. So again we have seen no indications that are moving forward as discussed previously.

Joe Maxa: And along those lines if you are building backlog and you have these big products coming, are you comfortable with your cash position as where it stands?

Bill Clough: Yes, we are. Frankly, Dan and I keep very close eye on that, because this is obviously something we want to take into the GAAP, but we feel very comfortable with it. There is a lot of cash still available to us, not only do we have, of course the \$9 million in the bank, but we have excess capital once the project is done in England.

We've funded that manufacturing research solely ourselves. Obviously there is not too to take a mortgage out of that if we want to. There is also a \$4 million line of credit that we have with Wells Fargo Bank that is untouched. We haven't used it at all.

And to be honest we've talked to Wells Fargo about any purchase order that we get from a company like The Italian Group. And they are more than happy to fund that project exclusively when we need it. There is a great deal of interest on their part, as you might imagine to put that kind of money to work. So I think we're in a strong position, but I will tell you Dan and I are quite -- we watch that quite closely.

Joe Maxa: So two other things on the project front, so you talked about 2.2 million in backlog or purchase orders outstanding on your VE technology; those firm purchase orders and do you have a timing associated with when you may see that revenue?

Bill Clough: Yes, they are enhanced right now, and we expect to see that through the rest of the year but that is the revenue we should see this year.

Joe Maxa: Okay. All right, so you will see that this year. And then this IRIS white kiosk, can you give some more color on that product. Is that to go after those 200 or 300 units or availability with your customer in the U.K. or is that an incremental opportunity?

Bill Clough: No, it's an incremental opportunity. It's actually quite interesting -- it's a partnership that we are with a large U.K. pipeline company. They are actually funding it to about a million pounds, and it's started about four months ago, five months ago now. It's a kiosk designed to operate independent of the group. So it's operated on wind and solar power. It will allow that company and others, for that matter, to operate our balancing metering stations that are so remote that they cannot be powered by grid tower.

So the opportunity is quite large as in U.K. because you have a lot of those types of (inaudible) in Northern Ireland and up in Scotland. We feel that the opportunity would be even bigger in North America we have the same situation out in some of the more remote areas in North America.

It's a device that will run somewhere between 60 and 100,000 pounds, and it is quite a high-tech kiosk and what we are doing right now is we have the kiosk, actually operating solely in U.K.. And we have -- we have one built and operating using, I can't believe, solar power in the U.K., but it's using solar power and wind and it's operating quite effectively. They are going to operate and we're going to operate it jointly with them for years. So it's got another seven to eight months or so to go.

Once it operates successfully for a year and we've got no hiccups from that at all so far, then they are going to certify and want to start deploying it to some of these remote locations. It's the same arrangement we had with this entity before. You know, whatever we produced we own, so it's a technology, at the end of day, while we'll deploy it to them probably first, it's something that we can sell to our North America offices as well. It's a very exciting prospect, but it's incremental and its new to the company.

Joe Maxa: OK, thank you. I will jump back in the queue.

Operator: Thank you, our next question comes from the line Eric Stine from Craig-Hallum Capital. Your line is open.

Eric Stine: Hi, Bill, hi, Dan.

Bill Clough: Hey, Eric.

Dan Ford: Hi, Eric.

Eric Stine: So maybe just touching on – you called about a number of purchase orders and I know announced this within the last month. But, you know, just maybe thoughts on next step, now that you've got companies going from testing to, you know, actual commercial installations, I mean, do you think that this is something that is followed up by larger orders, or do you believe that this is just now going to be part of kind of their regular buying patterns?

Bill Clough: It really depends on the customer and I think again, we started back this in the past. We believed this technology especially GasPTI is revolutionary. It has changed the way gas is measured.

And certainly if we get this large order, which we (inaudible) will in Europe, Western Europe, it literally moves at the behest of the largest pipeline company in Western Europe, when they move everybody else in Western Europe moves. So in the case of those customers we think that the ramp up could be quite significant.

On the other hand, you know, if you look at some of the compressor companies are all quite now, for example, they are going to roll out we think tens if not hundreds of units, but they will be with over their timeframe, frankly, they'll do it as they retrofit these individual compressor units. So again it really depends on the customer, but I think we're still very confident that once we starting seeing traction develop, because the device is cheaper, because it is faster, because it is low maintenance and accurate; once it becomes the standard, if you will, I think you are going to see a fairly dramatic increase in sale. That's what our sales people out there doing now, is pushing very hard, to announce credit throughout the industry. So we see that launch.

Eric Stine: Got it. And then you talked about NMI certification and EU certification as well for GasPT. I mean is that something that you think has kind of been a limiting factor to sales or is it more about, as you said, getting the opportunity in Italy rolling having a referenced customer and then that sort of market growth?

Bill Clough: It is. And actually it's very responsive to that largeness. I mean frankly the NMI certification is one that is very-very important to them, although not quite as important to the rest of Europe. It is a certification that under the EU treaties it is supposed to be had by any metering device being used in gas or oil for that matter.

But frankly other than the large customer that we're going after often times, people just ignore. But we wanted to be totally responsive to that. And it's a very difficult, very prolonged, quite extensive certification to get, and that's why many entities just don't bother with that. And we wanted to be very responsive to that and I think it's another indication. But we'll be able to go back to them, say okay, this is something else you wanted, we've got it. It just makes it much easier for them to go forward on the project with obviously a new technology.

Eric Stine: Right, right, OK. Maybe just turn into VE-Probe, you called out the 13, you know, for the large LNG project, I mean clearly that project is very large. So wondering what is the opportunity for follow-on orders for that specific project. But then that project owner has a lot of LNG projects as well. So I mean have there been discussions with Chevron in terms of their plans across more of their LNG plans?

Bill Clough: We'll absolutely not going to identify the Chevron. So let me correct you there

Eric Stine: Alright, sorry about that.

Bill Clough: There is an opportunity. And frankly they have had their representatives – actually last week, their representatives came to our U.K. facility to, in essence, inspect and do due diligence. They were quite impressed with what

they saw as I understand it. I'm actually going to be back there next week to get a call report. But I was told they were very-very impressed and understand that this 13 sampling testers for them amount to about 1.3 million pounds of business. So they are very extensive.

They are by and large mercury sensors, so that very technically advanced. And I think what we've been led to believe is that there's a considerable amount of opportunity in the Australian project and in others. The Australian project, we've been told could be as much as 10 million pounds to 15 million pounds over the next three years.

Well, again, that significant amount of work for us. And you're absolutely right, this is a Fortune 100 oil and gas company that has partners all over the world. They have sent two new people to our facilities to we make sure we are who say we are and then we can provide what we spoke or say we can provide.

And again they could've actually seen the company at a better time, because we're just opening, we're in the process of opening this branded manufacturing research facility. So they saw, you know, very high-tech operation and it's obviously growing, and it's obviously getting money best of interest. And I think again my understanding is they were quite impressed.

Eric Stine: OK, good. Maybe this one last one, there is a large pipeline company in the U.K. with IRIS, is that you still – expectation – you still expect, you know, that RFP comes out, I mean is it still -- I think you've sized it at a 150 units to 200 units. Is that how we should think about that starting in 2016?

Bill Clough: Yes. I think that's correct. And again I think, I am even more confident about that since, you know, they're beginning to order it piecemeal, which is tough in that they said they would not do. Well if they're doing because they have certain units within their infrastructure that are literally obsolete and are approaching, you know, situations where they could have catastrophic failures. So they have to get those replaced, but the fact that they're ordering piecemeal from us makes me even more confident.

But at the end of the day, no matter who gets the Tier 1 contract, the civil engineering contract, I believe the IRIS technology is going to be used to monitor the entire grid. So yes, I see that moving forward. Now my only question is when they get that big tender out, it seems like a very difficult thing for them, and is it very complex process and you'd get those things done, but again they seem be having a little bit of difficulty getting it up.

Eric Stine: OK. Thanks a lot, guys.

Operator: Thank you. And our next question comes from the line of Andrew D'Silva from Merriman Capital. Your line is open.

Andrew D'Silva: Hey, good afternoon, guys, thanks for taking my call. You know, a lot of my questions were already answered, but just, you know, as far as your technology goes particularly with GasPT, you know, it's been a while, you know, since that technology was introduced to the market. And I was wondering if you could maybe give an idea what the current landscape looks. Are you running into new technologies, or is legacy gas meta-graphs still really growing primary competition out there for you? Any color on that would be very useful.

Bill Clough: Sure. I will say, Andrew, and again I talked about this before. There was a time when I worried significantly about competitive technology. We have seen literally nothing on the market.

Interestingly ABB actually sold one of the pipeline companies we were dealing with, about four or five months ago, that they thought they had a solution that mirrored some of the features that we have. They provided that solution to that company who stepped in for one day and failed miserably, at which point they went back to the customer, said they need two more years of development.

So we've seen nothing that comes even close to even what we do. I think I've mentioned that one competitor we've seen in Europe is the Elster Lab Series, which is a device that is relatively accurate, not quite as fast as ours, but the problem with it is it requires daily calibration with pure methane gas. So it's got to have a purer take of methane gas sitting right next to it and someone

needs to calibrate each day. And even when you automate the calibration, you're still talking about, you know, someone getting out there a couple or three times a month and look at it and, you know, replacing that methane gas which is highly volatile.

So that's really the only one device that, you know, comes anywhere near to our speed and accuracy and compactness, and you still have the problem with service gas. So, yes, I would tell you that by and large the industry is still very much committed to the old technology, that the gas matters. And, you know, that has not changed and there is nothing out there that is competing with us, which I think again leads me to be very confident about the opportunity. Because once we show the reliability, durability, the accuracy and the acceptance of our device with some of these bigger companies, I think it becomes, really, a no-brainer for these companies to start changing to newer technology which is our technology.

So, no – no indication of any type that there are any technologies out there, we just haven't seen them, and realized at this point if you get a new technology adopted, it would take literally two or three years, because we have seen that cycle. You've got to get safety testing. You have got to do years of field test, it's a very laborious, very expensive, very-very long process that no one even started at this point.

Andrew D'Silva: Yes. I guess a kind of follow up to that, do you think the reason you are not seeing new technology is more related to the fact that it's so difficult to actually penetrate the market or do you think it is more related around the fact that your technology is that good, that there isn't anything that's able to actually come out that can compete with it.

Bill Clough: Yeah. I think it's rocket science. I mean, I said, it's just without getting too technical it is rocket science. What Advantica did, what British Gas did in creating Gas (BT) was monumental. They literally were able to develop an algorithm which the other elements – more importantly than anything else, that allowed them to actually mimic what a gas (inaudible) does without any (carrier gas), without any calibration gas. They did that in a way that was unique to the market, and the problem that people would have now trying to

catch up is frankly that algorithm becomes more and more accurate the more information that we receive.

As we receive more information from the field, our people, our engineers were able to tweak that algorithm and make it more and more accurate. So we are always approaching the accuracy of what purportedly the gas coming out of this -- which is better than 0.1 percent accurate. You know, our field units now are in the range of 0.15 percent accurate. So they are approaching the GC accuracy levels and with, you know, none of the maintenance or gas or time delay problem, and it is just a very difficult thing to do.

I mean I think I have mentioned this before; when we first bought the product to the market a very senior executive at a pipeline company in North America said that the market has been looking for this for 20 years.

They have been working on trying to get something like this for 20 years and just have not been able to develop it, or British Gas, simply because they have the money, the time, and the expertise were able to do it and I think it's just a very difficult problem. Gas especially now has become very-very changeable. It has numerous elements in it that affects its volatility, its color for value, and, you know, as with the chemical analysis that a meta gas (commodity has to provide) no one's been able to come up with the concept that approaches what we do.

Andrew D'Silva: OK. And then moving over CUI Canada, what's your baseline gross margin we should expect out of the products that are coming out of there? Is it maybe the low to mid 30s, or is it slightly below traditional business segment that you had prior?

Bill Clough: Dan, you answer that.

Dan Ford: Absolutely, I'll pick that up. Andrew, yes that's correct. But right now it is in the lower margin, lower 30s as we're building up efficiencies there.

The plant as you know, if we acquired that in solvency, so it's not a fully loaded highly efficient plant yet, which means there is more overhead being allocated to the lower volumes. As those volumes increase we expect that

margin to climb up into the 40 percent range where the rest of the power category is, but for now we are seeing margins in the lower to mid 30s from a gross standpoint and we are working on, otherwise to rectify that that as well beyond just increase in the flow through the factory.

We're also working on setting appropriate pricing on the orders that were the (inaudible). So we feel some of those may have been not quite priced correctly for the current model that is an operation at that facility. So as we work with the customers on new orders we're being quite realistic with them on pricing and coming to a win-win situation for everyone.

Andrew D'Silva: OK. Got it and this might not be a relevant to you guys but do you need any sort of EPA certification or a regulatory certification to, you know, mass distribute your products in any part of the U.S., or any other type of standards that we should be thinking about internationally for GasPT or IRIS strengthening to that nature?

Bill Clough: No, IRIS requires no regulatory approval at all and the same holds true for the technology, it requires no regulatory approval at all.

What GasPT required which we already have is full safety certification, CSA for North America IECEx for Asia, ATEX and BASEEFA for Europe, so, no. The only other certification, if you will, that people look to is PRCI, which we have in North America where they've tested and approved that device for accuracy. And then as I mentioned NMi in Europe was importantly we felt for that one customer. But really in North America, what you have is the industry to a large extent regulates itself, when it comes to metering and measuring and has a historical legacy and use that Gas meta graph to measure and calibrate value and then has very accurate flow meters to measure the flow.

Andrew D'Silva: OK. And on this last question, as far as Orbital goes, I know couple or maybe a year ago or so we were discussing, you know, international – by international I mean outside of the U.K., opportunities for the company in the Middle East, Africa and parts of South America; are those still viable what's on their, you know, legacy Biomethane in authorization projects, or are you

kind of seeing that transition to more, you know, domestic U.K. opportunities for them now?

Bill Clough: (They are involved), they actually are exploring a pretty significant opportunity in Venezuela, which we are working on it. It's just again they will launch sales cycles but they would be big projects, but their eyes are open and they are certainly looking outside of U.K.. Obviously our first commitment with the traditional business is inside the U.K., you know, with the big pipeline companies in the U.K., but we are looking out and there are projects out in the horizon that could be significant.

Andrew D'Silva: OK, all right. Hey, thanks a lot, guys, good luck with going forward.

Dan Ford: Yes.

Bill Clough: Sure, thanks.

Operator: Thank you and our next question comes from the line Marco Rodriguez from Stonegate Capital Partners. Your line is open.

Marco Rodriguez: Good morning, guys, thanks for taking my questions. I apologize I was having some technical difficulties in my phone so I had to jump off and come back, and so, if you've covered questions, then just please let me know, and I will follow-up with you later. Just kind of wanted to understand a little bit here, I didn't get the chance to write down the gross margin by segment, what was those numbers again for the quarter?

Dan Ford: They weren't disclosed in the Q but we do have them. I think they were already disclosed in the press release. For the quarter the power and electromechanical segment gross margin was 37 percent and the gas segment was 34 percent, and then year-to-date the power and electro was 37 percent and the gas segment was 35 percent.

Marco Rodriguez: Got you. And then SG&A had a pretty large sequential decline here, just trying to get a sense as far as what was going on in the quarter were there any sort of one-time items that might have lowered it, and what are sort of the expectations as we go through the rest of the year?

Dan Ford: Good question, what happened is that the first quarter was more expensive as it there is a lot of start-up costs including recreating cost in the first quarter as we're setting up the new operation in Houston, and then also completing the acquisition of CUI-Canada. So we feel like the Q2 SG&A is pretty stabilized now for where we believe the two new operating segments are going to require, and as well as the ongoing operation side. So I think the Q2 SG&A is maybe pretty consistent for the remainder of the year.

Marco Rodriguez: Got you. And if you could talk a little bit about the balance sheet, receivables picked up pretty substantial sequentially. Can you talk a little bit about the drivers there and then obviously you mentioned in the prepared remarks that this part kind of impacted your cash flow from operations and free cash flow, and also if maybe you can talk a little about the expectations of cash flow for the remainder of the year?

Dan Ford: Sure. So the uptick in receivables is really to do with the increase in business associated with overall growth, but really the addition of CUI-Canada operations and the related customers are going to CUI's power group now, and then also the uptick in business through the Houston overall U.K., overall U.S. office. So those two entities and the growth in general brought in 23 million of revenue for Q2 as compared with 16 million in Q1. So that's the general increase. And the receivables balance, I'm sorry, could you repeat your first question or the rest of that question?

Marco Rodriguez: Yes. Just kind of how we should be thinking about cash flow from operations for the remainder of the year and free cash flow as well?

Dan Ford: In general, the balance sheet looks like it's probably going to stay in this territory from receivables inventory in such standpoint, payable should remain consistent as well. So we don't expect to cash using operations to be millions of dollars each quarter now. It should be more just, you know, based on flux for the P&L impact and smaller changes in the balance sheet. So it should – it should start to see some smaller usage for the rest of the year. As Bill mentioned, we're not thinking about the cash balance that we've got right now

and we don't believe we're going to burning through much of that for the rest of the year.

Marco Rodriguez: Got you.

Dan Ford: Go ahead.

Bill Clough: Go ahead, Marco.

Marco Rodriguez: Okay, I'm sorry. I guess I might be having some more problems with my phone. Then last quick question, I just want to get a clarification on one of the earlier questions, the large Italian opportunity. I believe on the last call, you guys were talking about there should be some award announcements coming this summer, obviously the summers is not done yet but we're most kind of lapping that. Is that expectation still there or is that being pushed a little bit. Can you help me understand that part?

Bill Clough: Yes, it's obviously internal with them. We're intentionally not announcing much of anything until we actually have a confirmed formal tender out there that we win, because obviously I don't want to ride through it, waving a red flag in front of my competitors.

And we've been told that should still be done this summer, I expected it actually by now, but these bid processes are very complex as evidenced by the one in the U.K.. They are moving forward according to what they tell us and we still expect something this summer. You know when I say this summer, I suspect something in some late this month or early September.

Marco Rodriguez: Got you. Thanks a lot, guys. I appreciate it.

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

Jim Kennedy: Hi, Bill, hi Dan.

Bill Clough: Hi, Jim.

Dan Ford: Hello.

Jim Kennedy. Congratulations on the progress. A couple of questions for you. I want to start with (VE), could you remind us what is it about that technology that you feel caused it to be selected both in Australia as well as other places globally. What is it doing that other technology cannot do?

Bill Clough: Yes, so, that's a great question and it's a little bit technical, but I will try as much as I can. It obviously has been supervised for me, because I'm a lawyer by trade not an engineer. But in traditional sampling systems what you have is a very large amount of gas sample taken up through a very large tube, it then goes into a filter system that is also quite a large compartment comparatively where it sits for a period of time and then goes into whatever your analyzer is.

That period of time from sampling to receipt of the analyzers can be anywhere from two to as many as five or six minutes. More importantly for trace elements like Mercury that large tube and especially the large filtration system creates a pocket where the Mercury, which is heavier than all of the elements settles to the bottom. So many times the Mercury has to build up to such an intense level before it gets to the detector, that by the time they realize there is Mercury content in the gas it's too late, or in some cases a good example was a catastrophic failure at STAT oil in the Netherlands, where you had built up of Mercury that no one appreciated, because the sampling system simply didn't get the Mercury to the detector.

The VE Technology, because of the aerodynamics created by the fans, the helical fans allows us to pick up a very-very small amount of gas, I think it's a 4 millimetre tube that brings the gas up. The reason that's important is it requires no filtration, it's not being forced out through a pressure drop like is it is a normal sampling systems, so it's coming up through its own impetus, it allows the gas from the pipelines to reach the analyzer in less than two seconds. It's almost instantaneous. It comes from the pipeline to the – to the sampling system and there is no large filtration or other large compartment within the sampling system. It goes straight from the pipeline into the – into the analyzer.

In the case of Mercury as an example, it becomes very-very accurate, because the place where the Mercury settles is on to the gold foil that is in fact the analyzer process. So the sampling system is very-very accurate for trace elements like Mercury, like H<sub>2</sub>S, like water and moisture H<sub>2</sub>O. All things it can be damaging especially in the LNG process is that in the (liquefaction) process of LNG, obviously any water in the gas or moisture in the gas in that (liquefaction) process turn into ice which again can be catastrophic when you're dealing with an LNG plant.

The Mercury as I mentioned is very corrosive for aluminum, so also potential catastrophe. And then there is very-very small trace element in the gas pipeline. So if you have a sampling system that mixes the gas and allows that trace element to find and get another place to hide in the filtering system you have simply another method of not being able to detect those trace elements. So what the VE Technology does is, it allows for very quick, very small, very accurate samples to be taken. On top of that obviously because of the helical fan it reduces and eliminates that vortex, which causes a vibration and ultimately causes the pipeline or the probe itself to break. So twofold, one is – one is that the initial invention which was simply to stop the vibration and two is then kind of unintended consequence to that, the ability to withdraw very fast, very accurate samples.

Jim Kennedy: So, Bill, the potential market here as you've described it; are we talking strictly LNG projects, and are they new builds, can it be retrofit?

Bill Clough: No, that's strictly LNG. The probe, the sampling system could be used with any analyzer, anything. It makes a gas come out of that faster as well, because obviously instead of taking you five to ten minutes to get the sample, you're getting the sample within two seconds.

So it's obviously integral for GasPTI, because it makes the GasPT that much quicker. But it can be used with any sampling system or rather any analyzer to sample any form of gas. So it could be used throughout the system. And in the case of sampling system, it's most particularly in use in LNG, because the LNG has the most probably trace elements and the most danger from these trace elements, because they're actually liquefying the gas.

The other area that we're seeing some pretty good takeaway as you can tell is in the area of thermal wells, which is at a much lower price point; but is much more prevalent throughout the entire industry. Thermal wells are everywhere. It's not hundreds of thousands, there's millions of pipelines all over the world.

So the difference is with there, where now you have a very strict calculation you have to do – whenever you put a thermal well into a pipeline, where you have calculated what the vibration is, when the vibration is going to cause weakness, how long that device can last, when it has to be replaced, you eliminate all of these calculations, all of that replacements, all of that issue when we use the thermal well designed around our VE Technology because you don't have that vibration issue, so the (inaudible) is quite large.

Jim Kennedy: When you went through the evaluation phase and the testing here, where you competing against other technologies or is this perceived to be the only technology that can do this, or does it better than competing technologies, what was the criteria there?

Bill Clough: Yes, there's no – the sampling probes and thermal wells have been very, so it's just basically up until we introduced this VE Technology, they were simply – you would stick a pipe into the pipeline, there was nothing technical about it.

You set the pipe in the pipeline, it had an angled tip on it, so you had a pressure drop as it went past and everything went up, everything including all of the garbage, everything else you see in that pipeline would go up into tube, that's why you to have such large filtering, because you're drawing up dirt and mud and crud and all stuff that's in that pipeline.

We don't do that. We only draw the gas. But again there is nothing particularly scientific about what was done in the past. We have the patents all around this helical fans which really is historically is a system that's been used to create this vibration elimination, you know, by smoke stacks, by car antennas, anywhere you have a flow going across, in essence an insertion into a pipeline, or in an airspace of any type, you're going to have this problem and the say helical fan to be used to avert that problem. We simply have the patent on using that technology in the pipeline, oil or gas pipeline.

Jim Kennedy: So in theory you could become an industry standard with the right adoption rates?

Bill Clough: Yeah. I think that's correct. And I think again it's a kind of thing where you do not have regulator requirement. It's more people starting to look at it and realize what it does and how it works, and I think that's what we are seeing now in Australia is we went down there and I think I've mentioned this before, is we went down there for a 280,000 pound or \$400,000 opportunity.

We went down there, we got a (full core press) because we saw the opportunity, and the minute they started seeing the results, the minute they started seeing what it could do, all of a sudden now I think we are up to somewhere around 3.3 million pounds, almost \$300 million worth of sales we have got down there.

Jim Kennedy: Other question for you Bill and Dan. When the North America Gas Transport and Compression Company that is now starting to order PT2; number one, is this a referenceable customer? Will they allow you to share their name with others and allow people to come and see the technology in the field?

Bill Clough: Yeah. We have had really good cooperation in that regard. They are very, as I think we've talked about it in the past here, very hesitant to allow anything to do with press releases or any of that kind of announcement, but within the industry themselves they've been very, very good about acting as a reference, they have made their engineers available to talk to other people.

And yes, we have our sales group out of North America using them quite often as a reference and they are in fact opening up their facility to allow other engineers to take a look at what's going on, so we feel that's good.

Jim Kennedy: Do we, again you again, you are not going to mention the company, but do we know ultimately what percentage footprint they have in the U.S., I mean do they control five percent of the transmission, three percent, ten percent?

Bill Clough: I say it's probably -- it's certainly less than two percent of the transmission. It's not so much that they control so much the transmission. It's that they are

very respected as very high tech and very advanced. They're a company that is to some extent a bell weather in the industry. They always had been, so that really was their (take on events).

So, you know, you talk about it in the U.S., you are talking about 350,000 almost 400,000 miles of pipeline now. You've got some major pipeline players, you know, the Kinder Morgan, the ETPs that are controlling a lot of their own compression. But again for an independent operation, they are very significant in the sense that the industry looks to them for direction.

Jim Kennedy: OK. And last question, your press release from July, I believe that was 21st, mentioned Asian gas turbine manufacturer comment on the number of systems deployed where they purchased, what is the ongoing relationship there?

Bill Clough: Yes, I think now we've delivered four systems to them. I think that was delivered -- a big issue was their factory acceptance. They are very particular about the -- what they would take. They are in fact running her systems, as I understand it now, as they are in essence conducting their own testing to see what the effects are.

We're confident that they are going to see what everybody else is seeing that there is an uptick in efficiencies and improvement in ignitions, but again, they are not really sharing with us, what it is they are doing or how long it's going to take. But they are moving forward and they have now the devices in place, and yes, they got purchased in (inaudible).

Jim Kennedy: OK, great. Thank you.

Bill Clough: Sure.

Operator: Thank you. Our next question comes from the line of Joe Maxa from Dougherty and Co., your line is open.

Joe Maxa: Yes. Hi. Just a couple of modelling questions, I was looking at the gross margin and with the gas being down sequentially to 34 percent. I am assuming like that little color, was that driven by these biomethane (skids)

finalizing those, and with the backlog looking to include more of the VE technology I would expect that to pick back up in the second half perhaps back to your 37 percent or 40 percent range. Is that the right way to look at it?

Dan Ford: So there was some down-push in that from as you mentioned the biomethane. The other – the other downturn in that are decreasing that margin is we had an increase in integration work through the North American office. Those margins are in the mid to high-20 percent range up to 30 percent range, so that pulls that down as you now the VE margins are in the 40 percent ranges and so those will help offset that. So I think for the gas operation for what we're seeing for the remainder of the year and given the integration work in the U.S., it's looking like probably 35 percent to 37 percent of the range target for that segment for us right now.

Joe Maxa: I see. And similarly on the P&EM side 37 percent appear to be the number, and two quarters in a row and the commentary earlier is it going to be somewhere in that same range?

Dan Ford: We're working in backup to the 38 percent to 40 percent range, but 37 percent pretty close there. I think we're going to get a backup in fairly short order, but that's going to take, you know, turning through new orders, that they're priced differently and just in general continue to pump through the new facility in Canada to get more efficiencies there. So that margin should start to turn back up over the next couple of quarters.

Joe Maxa: I see. And then the depreciation, amortization, a couple of moving parts with the acquisitions. What should we be modelling in the back half?

Dan Ford: The number that you saw for Q2 should be consistent for the back half for the year.

Joe Maxa: Great. Thank you.

Dan Ford: Yes.

Operator: Thank you. Our next question comes from the line of Roger Liddell from Clear Harbor Asset Management. Your line is open.

Roger Liddell: Thank you. Good morning, Bill, good morning, Dan.

Dan Ford: Good morning, Roger.

Bill Clough: Hey, how are you doing, Roger?

Roger Liddell: I wanted to pick-up on Jim's question of just a couple of minutes ago on the PT Technology and thermo well, let's say sensing capability and with your discussion of the importance of Mercury detection, I hadn't known the system could do that. I am wondering if there is a multi-application opportunity out there with contaminants, pollutants that have nothing to do with energy per se. Can you elaborate on that?

Bill Clough: Yes, I'm not sure how to answer your question. The sampling system, our application sampling system is strictly for natural gas, that's how we've used it for is natural gas. So you're targeting trace elements of natural gas and what those operators are really most concerned about in the trace element are any elements that are going to cause damage to their facilities or obviously contaminant the gas itself.

Now realize there is not going to be much that gets into the system on a general basis, when you have a standard gas pipeline system, because at the entry point you're going to have gas (come out of that), that will give the operator a very exact chemical composition with gas.

And even gas (inaudible) have problems again some of the trace elements, but it will be a very-very accurate chemical make-up with the gas and then what you trying to do after that is, you know, pick up things that get through in such minute amounts, that, you know, they have to build up before they're detectable. That would be things like Mercury or things like moisture that (occur through) condensation or you might have very-very trace amounts of H<sub>2</sub>S and generally it will be much further upstream. But again I think at this point our applications are all energy related. So I'm not sure how to answer your question, it's all for gas that we do.

Roger Liddell: Sure. I don't want to pursue it further, we got enough opportunity to work on right here.

In the 10-Q, in the section in General Electric Intelligent Platform Arena, you point out that CUI Orbital was named the premier solution partner. In that reference, you mentioned both natural gas energy primary market, and then separately there is a reference to Electro-Mechanical Intelligent Power applications as a secondary. I understand you might be significantly constrained by in NDA, but this mention of Electro-Mechanical Intelligent Power, it doesn't sound like IRIS to me. Is there a second application that you have now designated as a premier solution partner?

Bill Clough: Yes, I think that was their decision, and I think really they did that more because they looked at the company and what we do generally, but our relationship with them at this point is mostly IRIS space. I mean there are still all these projects we're working – we're still working with them, I mean GasPTI with their turbine application so that we're still working on that, but again I think most of what that intelligent platform is about is IRIS and the IRIS systems.

Roger Liddell: Yes, OK. Turbine control applications, A U.K. transmission company has been using them for approaching three years now in turbine control. So there anything concrete right now on turbine control versus the other applications for GasPTI.

Bill Clough: I know this is what we've talked about already, I mean we talked about the manufacturer, we're still – we're still moving that in that market. That's a – we believe that's a very, very significant market for us, and we have a great application for process control, so again we show that we're still working towards that, but other than what we've already talked about, there is nothing – (there's really nothing new to talk about).

Roger Liddell: Yes. OK, final question. I know that there is something like 1.4 million shares for the company. And are you aware of any particular short-players or what (inaudible) they're holding to be short?

Bill Clough: Yes, in fact, it's interesting because I think we talked to some extent about the effect of the Russell 2000. I think the last year when we got pulled under the Russell 2000, we obviously didn't make the Russell 2000 this year and as a result of that, at one point, you know, just to pull out of the Russell 2000 (inaudible), we had over 2.2 or 2.3 million shares short.

We now are (inaudible) and managed to around 1.38 - 1.4 million short shares which is more in line with what we had before the Russell 2000 situation occurred, it was somewhere around 1.2 million. But now I can't tell you who or what that 1.2 million represents. You know, it's obviously a bet by some people in the market that were not going to deliver on what we say we are going to deliver on. We hope to make them very wrong.

Roger Liddell: OK, thank you.

Bill Clough: Yes, thanks, Roger.

Operator: Thank you. And as a reminder, ladies and gentlemen, if you wish to ask a question please press star and then one on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue please press the pound key.

At this time, I am showing no further questions. I would like to turn the call back over to Mr. Bill Clough for closing remarks.

Bill Clough: Thank you, (Shavey). And thank you, everyone for attending and listening to the call.

Again, I think it was pretty obvious from this call that we are very enthusiastic about the company and its opportunities going forward. And as always, I just want to thank everybody on this call and shareholders generally for being supportive and patient, and I can assure you that the entire management team and all of our employees are working very-very hard to deliver on the promise that I think this company brings. So, again with that being said, thank you and that concludes the call.

Operator: Thank you, ladies and gentlemen. Thank you for your participation in today's conference. This does conclude the program. You may all disconnect.

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