CUI Global, Inc.
Form 10-Q
November 14, 2011

CUI GLOBAL, INC.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For quarter ended September 30, 2011

Commission File Number 0-29923

CUI Global, Inc.
(Name of Small Business Issuer in Its Charter)

Colorado	(3670)	84-1463284
(State or jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

20050 SW 112th Avenue
Tualatin, Oregon 97062
(503) 612-2300.
(Address and Telephone Number of Principal Executive Offices and Principal Place of Business)

William J. Clough, CEO/President
CUI Global, Inc.
20050 SW 112th Avenue
Tualatin, Oregon 97062
(503) 612-2300.
(Name, Address and Telephone Number of Agent for Service)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES o NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange act.

Large accelerated filer o Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting Company) Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO x

As of November 9, 2011, there were 219,282,472 shares of the Company's common stock outstanding, 50,543 shares of Series A Convertible Preferred Stock outstanding, no shares of Series B and Series C Convertible Preferred Stock outstanding.

CUI Global, Inc.
(formerly known as Waytronx, Inc.)

INDEX

Part I

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CUI Global, Inc.
(formerly known as Waytronx, Inc.)
Condensed Consolidated Balance Sheets

	September 30, 2011 (unaudited)	December 31, 2010
Assets:		
Current Assets:		
Cash	$ 143,750	$ 373,823
Trade accounts receivable, net of allowance of $125,000 and $125,000, respectively	4,111,706	3,822,735
Other accounts receivable	42,112	15,926
Other accounts receivable, related party	7,477	202,418
Inventories, net of allowance of $300,000 and $164,005, respectively	4,027,586	3,735,641
Prepaid expenses and other	301,923	339,103
Assets held for sale	-	3,187,283
Total current assets	8,634,554	11,676,929
Property and equipment, net	949,582	1,010,362
Other assets:		
Investment - equity method	178,606	157,149
Technology rights, net	580,137	778,903
Patent costs, net	6,480	-
Other intangible assets, net	34,814	-
Deposits and other	4,000	63,215
Notes receivable, net	539,393	15,831
Debt offering costs, net	134,445	450,859
Intangible, trademark and tradename CUI	4,892,856	4,892,856
Intangible, trademark and tradename V-Infinity	1,373,828	1,373,828
Intangible, patent pending technology	551,559	551,559
Intangible, customer list	1,857,000	1,857,000
Intangible, CUI Japan	139,201	139,201
Goodwill, net	12,907,157	12,907,157
Total other assets	23,199,476	23,187,558
Total assets	$ 32,783,612	$ 35,874,849
Liabilities and stockholders' equity:		
Current liabilities:		
Accounts payable	$ 1,973,790	$ 1,757,682
Preferred stock dividends payable	5,054	5,054
Demand notes payable	2,223,431	1,549,779
Accrued expenses	1,125,751	1,588,684
Accrued compensation	109,946	399,013
Unearned revenue	65,623	70,030
Notes payable, current portion due	4,235,587	4,109,749
Notes payable, related party, current portion due	-	487,208

Convertible notes payable, related party, current portion due	35,000	-
Liabilities held for sale	-	3,274,314
Total current liabilities	9,774,182	13,241,513
Long term notes payable, net of current portion due of $4,235,587 and $4,109,749, respectively	-	371,577
Long term notes payable, related party, net of current portion due of $0 and $487,208, respectively	10,303,683	10,308,983
Total long term liabilities	10,303,683	10,680,560
Total liabilities	20,077,865	23,922,073
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value $0.001; 10,000,000 shares authorized	-	-
Convertible Series A preferred stock, 5,000,000 shares authorized, 50,543 shares issued and outstanding liquidation preference of $50,543 at September 30, 2011 and December 31, 2010, respectively	51	51
Convertible Series B preferred stock, 30,000 shares authorized, and no shares outstanding at September 30, 2011 and December 31, 2010, respectively	-	-
Convertible Series C preferred stock, 10,000 shares authorized, and no shares outstanding at September 30, 2011 and December 31, 2010, respectively	-	-
Common stock, par value $0.001; 325,000,000 and 325,000,000 shares authorized and 219,282,472 and 214,045,673 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	219,283	214,046
Common stock issuable; 0 and 50,000 shares authorized and issuable at September 30, 2011 and December 31, 2010, respectively	-	50
Additional paid-in capital	85,960,867	85,732,521
Accumulated deficit	(73,486,649)	(73,596,738)
Accumulated other comprehensive income (loss)	12,195	(50,810)
Total stockholders' equity	12,705,747	12,299,120
Noncontrolling interest in discontinued operations	-	(346,344)
Total liabilities and stockholders' equity	$ 32,783,612	$ 35,874,849

See accompanying notes to Condensed Consolidated Financial Statements

CUI Global, Inc.

(formerly known as Waytronx, Inc.)
Condensed Consolidated Statements of Operations
(unaudited)

	For the three months ended September 30, 2011	For the three months ended September 30, (Restated) 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, (Restated) 2010
Revenues:				
Product Sales	$ 10,715,563	$ 9,740,364	$ 30,097,874	$ 26,224,860
Revenue from freight	12,652	21,534	49,754	57,948
Total revenue	10,728,215	9,761,898	30,147,628	26,282,808
Cost of revenues	6,706,311	5,775,854	18,565,279	15,850,046
Gross profit	4,021,904	3,986,044	11,582,349	10,432,762
Operating expenses				
Selling, general and administrative	3,382,137	2,946,417	10,224,273	8,565,375
Research and development	199,602	366,790	529,863	563,196
Bad debt	62,000	13,009	77,449	27,954
Total operating expenses	3,643,739	3,326,216	10,831,585	9,156,525
Income from operations	378,165	659,828	750,764	1,276,237
Other income (expense)				
Other income	11,387	15,780	36,153	85,039
Other expense	(39,194)	(50,188)	(48,294)	(130,492)
Investment income (loss)	16,886	28,924	21,457	50,796
Interest expense - intrinsic value of convertible debt, amortization of debt offering costs and amortization of debt discount	(19,167)	(419,423)	(316,414)	(3,668,122)
Interest expense	(230,059)	(264,046)	(686,913)	(914,688)
Total other income (expense), net	(260,147)	(688,953)	(994,011)	(4,577,467)
Profit (loss) before taxes	118,018	(29,125)	(243,247)	(3,301,230)
Provision for taxes	6,330	30,674	21,673	35,092
Consolidated Net profit (loss) from continuing operations	111,688	(59,799)	(264,920)	(3,336,322)
Profit (loss) from discontinued operations				
Profit (loss) from discontinued operations	-	5,213	(160,153)	(74,659)
Gain on divestment of Comex Electronics	312,635	-	603,034	-
Net profit (loss) from discontinued operations	312,635	5,213	442,881	(74,659)

Consolidated Net profit (loss)	424,323	(54,586)	177,961	(3,410,981)
Less: Net profit (loss) from discontinued operations - noncontrolling interest	-	2,659	67,872	(38,686)
Net profit (loss) allocable to common stockholders	$ 424,323	$ (57,245)	$ 110,089	$ (3,372,295)
Other comprehensive profit (loss)				
Foreign currency translation adjustment	$ 26,831	$ (5,511)	$ 63,005	$ (23,849)
Comprehensive profit (loss)	$ 451,154	$ (62,756)	$ 173,094	$ (3,396,144)
Basic profit (loss) per common share from continuing operations	$ 0.00	$ (0.00)	$ (0.00)	$ (0.02)
Diluted profit (loss) per common share from continuing operations	$ 0.00	$ (0.00)	$ (0.00)	$ (0.02)
Basic profit (loss) per common share from discontinued operations - attributable to CUI Global, Inc.	$ 0.00	$ 0.00	$ 0.00	$ (0.00)
Diluted profit (loss) per common share from discontinued operations - attributable to CUI Global, Inc.	$ 0.00	$ 0.00	$ 0.00	$ (0.00)
Basic profit (loss) per common share	$ 0.00	$ (0.00)	$ 0.00	$ (0.02)
Diluted profit (loss) per common share	$ 0.00	$ (0.00)	$ 0.00	$ (0.02)
Basic weighted average common and common equivalents shares outstanding	219,282,472	196,478,788	216,859,788	183,860,295
Fully diluted weighted average common and common equivalents shares outstanding	219,983,110	196,478,788	217,590,284	183,860,295

See accompanying notes to Condensed Consolidated Financial Statements

CUI Global, Inc.
(formerly known as Waytronx, Inc.)
Condensed Consolidated Statements of Cash Flows
(unaudited)

	For the nine months ended September 30, 2011	(Restated) 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit (loss) - attributable to CUI Global, Inc.	$ 110,089	$ (3,372,295)
Adjustments to reconcile net profit (loss) to net cash provided by (used in) operating activities:		
Stock, warrants, options and notes issued for compensation and services	183,532	69,734
Non-cash interest expense, including amortization of beneficial conversion value, warrant related debt discounts and intrinsic value of convertible debt and amortization of debt discount and amortization of debt offering costs	316,414	3,668,122
Non-cash (profit) on equity method investment	(21,457)	(50,796)
Bad debt expense	77,449	27,954
Amortization of technology rights	198,766	184,420
Amortization of patent costs	166	13,061
Amortization of website development	2,604	10,733
Inventory reserve	135,995	38,530
Net profit (loss) - noncontrolling interest	67,872	(38,686)
Depreciation	403,866	341,079
Amortization	-	833
(Increase) decrease in assets:		
Trade accounts receivable	(304,420)	(315,233)
Other accounts receivable	(26,186)	(13,762)
Other accounts receivable, related party	2,433	(6,636)
Inventory	(427,940)	(855,008)
Prepaid expenses and other current assets	26,526	115,159
Deposits and other assets	59,215	34,483
Increase (decrease) in liabilities:		
Accounts payable	216,108	123,173
Accrued expenses	(462,933)	1,180,098
Accrued compensation	(289,067)	64,208
Unearned revenue	(4,407)	4,097
NET CASH PROVIDED BY CONTINUING OPERATING ACTIVITIES	264,625	1,223,268
NET CASH PROVIDED BY (USED IN) DISCONTINUED OPERATING ACTIVITIES	22,141	(805,557)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in technology rights and development	-	(70,000)
Investment in patents	(6,646)	(7,230)
Investment in other intangible assets, net	(37,418)	-
Proceeds from Notes receivable	47,333	45,005

Purchase of property and equipment	(343,086)	(329,068)
NET CASH (USED IN) CONTINUING INVESTING ACTIVITIES	(339,817)	(361,293)
NET CASH PROVIDED BY (USED IN) DISCONTINUED INVESTING ACTIVITIES	195,278	(40,639)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (payments to) demand notes payable, net of debt offering costs	673,652	(290,834)
Proceeds from (payments to) notes and loans payable	(58,531)	(2,092,843)
Payments on notes and loans payable, related party	(487,208)	(177,738)
Proceeds from conversion of debt to non-controlling interest	-	66,667
Proceeds from convertible note payable, related party	35,000	-
Proceeds from sales of common stock, and exercise of warrants and options, net of offering costs	50,000	2,017,718
NET CASH PROVIDED BY (USED IN) CONTINUING FINANCING ACTIVITIES	212,913	(477,030)
NET CASH PROVIDED BY (USED IN) DISCONTINUED FINANCING ACTIVITIES	(648,218)	552,705
EFFECT OF EXCHANGE RATE CHANGES ON CASH	63,005	(23,849)
Cash and cash equivalents at beginning of year	373,823	391,486
Cash and cash equivalents at end of period	143,750	459,091
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (230,073)	$ 67,605

(continued)

CUI Global, Inc.
(formerly known as Waytronx, Inc.)
Condensed Consolidated Statements of Cash Flows (continued)
(unaudited)

	For the nine months ended September 30,	
	2011	(Restated) 2010
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	$ 35,280	$ -
Interest paid	$ 693,884	$ 775,175
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Note receivable, related party applied to note payable, related party	$ 192,508	$ -
Conversion of debt to common stock	$ -	$ 242,559
Conversion of accrued liabilities to common stock	$ -	$ 1,320,000
Common stock issued for consulting services and compensation and accrued liabilities payable in common stock	$ 42,000	$ 42,000
Forgiveness of debt treated as capital contribution	$ -	$ 7,943,292

See accompanying notes to Condensed Consolidated Financial Statements

CUI Global, Inc.
(formerly known as Waytronx, Inc.)
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

1. BASIS OF PRESENTATION AND GOING CONCERN
The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the United States Securities and Exchange Commission for interim financial information which includes condensed financial statements. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position and results of operations and should be read in conjunction with the Annual Report, Form 10-K for the year ended December 31, 2010.

It is management's opinion that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year.

CUI Global, Inc. (formerly known as Waytronx, Inc.) is a platform company dedicated to maximizing shareholder value through the acquisition, development and commercialization of new, innovative technologies. Through its subsidiaries, CUI Global has built a diversified portfolio of industry leading technologies that touch many markets.

Effective May 16, 2008, CUI Global, Inc. formed a wholly owned subsidiary, Waytronx Holdings, Inc., to acquire the assets of CUI, Inc., a Tualatin, Oregon based provider of electronic components including power supplies, transformers, converters, connectors and industrial controls for Original Equipment Manufacturers (OEMs). The wholly owned subsidiary was renamed CUI, Inc. following the close of the acquisition. Through the acquisition of CUI, Inc., the Company obtained 352,589 common shares (representing a 11.54% and 10.47% interest at September 30, 2011 and 2010, respectively) in Test Products International, Inc., a provider of handheld test and measurement equipment. Since its inception in 1989, CUI has been delivering quality products, extensive application solutions and superior personal service. CUI's solid customer commitment and honest corporate message are a hallmark in the industry.

Through CUI's capabilities and extensive contacts throughout Asia, this acquisition allows CUI Global to continue to identify, acquire and commercialize new proprietary technologies. CUI Global will use CUI's market partners and global distribution capabilities to bring other products to market, including the Novum Digital Power Modules, Solus Power Topology, Vergence GASPT2 and other proprietary devices, described below. CUI's testing and R&D capabilities allow CUI Global to commercialize and prototype its products more efficiently and economically.

CUI defines its product into three categories: components including connectors, speakers and buzzers; control solutions including encoders and sensors; and power solutions known as V-Infinity. These offerings provide a technology architecture that addresses power and related accessories to industries ranging from consumer electronics to defense and alternative energy.

Effective July 1, 2009, CUI Global acquired CUI Japan (formerly Comex Instruments, Ltd.) and 49% of Comex Electronics Ltd. Both companies are Japanese based. CUI Japan provides test and measurement systems and electronic components and Comex Instruments is a DSP provider of digital to analog and analog to digital test and measurement systems for OEM research and development. Effective July 1, 2011, CUI Global entered into an agreement to divest the 49% ownership of Comex Electronics as of July 1, 2011, as such, the operations of Comex Electronics are reported as discontinued operations for the current and comparable periods. CUI Global will continue to maintain its 100% ownership of CUI Japan.

8

The accompanying financial statements have been prepared on the assumption that CUI Global will continue as a going concern. As reflected in these financial statements, CUI Global had an accumulated deficit of $73,486,649 and working capital deficit from continuing operations of $1,139,628 as of September 30, 2011. The ability to continue as a going concern is dependent upon the ability to bring additional technologies and products to market, generate increased sales, obtain positive cash flow from operations and raise additional capital. The financial statements do not include any adjustments that may result from the outcome of this uncertainty.

We will continue to raise additional capital to provide sufficient cash to meet the funding required to develop and commercialize our technology product lines. As we continue to expand and develop technology and product lines, additional funding may be required. There have been negative cash flows from operations and incurred net losses in the past and there can be no assurance as to the availability or terms upon which additional financing and capital might be available if needed.

2. ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in 2011 and 2010 include estimates used to review the Company's long-lived assets for impairment, allowance for doubtful accounts, inventory valuation, valuations of non-cash capital stock issuances, valuations of derivatives and the valuation allowance on deferred tax assets.

Principles of Consolidation

The consolidated financial statements include the accounts of CUI Global, Inc., its wholly owned subsidiary CUI, Inc. and CUI Japan and its 49% owned subsidiary Comex Electronics (through July 1, 2011 date of disposal) hereafter referred to as the "Company". Significant intercompany accounts and transactions have been eliminated in consolidation.

Fair Value of Financial Instruments

The carrying amounts of the Company's cash and cash equivalents, accounts receivable, prepaid expense and other assets, accounts payable, accrued liabilities, notes payable and deferred compensation approximate their fair value due as of September 30, 2011.

Cash

Cash includes deposits at financial institutions with maturities of three months or less. The Company at times has cash in banks in excess of FDIC insurance limits and places its temporary cash investments with high credit quality financial institutions. At September 30, 2011, the Company had no cash balances at financial institutions which were in excess of the FDIC insured limits. The Company maintained cash balances of $142,559 in foreign financial institutions.

Accounts Receivable

The Company grants credit to its customers, with standard terms of Net 30 days. Other credit terms are available based upon a review of the customer's financial strength. The Company routinely assesses the financial strength of its customers and, therefore, believes that its accounts receivable credit risk exposure is limited. In addition, the Company maintains a foreign credit receivables insurance policy that covers many of its receivable balances in effort to further reduce credit risk exposure.

Inventory

Inventory consists of finished and un-finished products. At September 30, 2011, the Company had finished goods of $4,097,561, raw materials of $219,585, work in process of $10,440 and an allowance of $300,000.

Furniture, Equipment and Software
Furniture, equipment and software are recorded at cost and include major expenditures, which increase productivity or substantially increase useful lives.

Maintenance, repairs and minor replacements are charged to expenses when incurred. When furniture and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation are removed from this account, and any gain or loss is included in the statement of operations.

The cost of furniture, equipment and software is depreciated over the estimated useful lives of the related assets. Depreciation is computed using the straight-line method for financial reporting purposes. The estimated useful lives and accumulated depreciation for furniture, equipment and software are as follows:

	Estimated Useful Life
Furniture and equipment	3 to 7 years
Software	3 to 5 years

Identifiable Intangible Assets
Intangible assets are stated at cost net of accumulated amortization and impairment. Intangible assets other than goodwill, technology rights and patents are amortized over an estimated useful life of 15 years. Technology rights are amortized over the shorter of a twenty year life or the term of the rights agreement and are reviewed for impairment annually. Patent costs are amortized over the life of the patent. Any patents not approved will be expensed at that time.

Intangible assets consist of the following as of September 30, 2011:

Technology Rights	$803,664
Accumulated amortization	(223,527)
Net	$580,137
Patent costs	$6,646
Accumulated amortization	(166)
Net	$6,480
Debt offering costs	$220,000
Accumulated amortization	(85,555)
Net	$134,445
Intangible, trademark and tradename CUI	$4,892,856
Accumulated amortization	-
Net	$4,892,856
Intangible, trademark and tradename V-Infinity	$1,373,828
Accumulated amortization	-

Net	$1,373,828
Intangible, patent pending technology	$551,559
Accumulated amortization	-
Net	$551,559
Intangbiile, customer list	$1,857,000
Accumulated amortization	-
Net	$1,857,000
Intangible, CUI Japan	$139,201
Accumulated amortization	-
Net	$139,201
Goodwill	$12,909,273
Accumulated amortization	(2,116)
Net	$12,907,157
Other intangible assets	$67,481
Accumulated amortization	(32,667)
Net	$34,814

Investment in Affiliate

Through the acquisition of CUI, Inc. the Company obtained 352,589 common shares representing an 11.54% and 10.47% interest at September 30, 2011 and 2010, respectively, in Test Products International, Inc., hereafter referred to as TPI. TPI is a provider of handheld test and measurement equipment. The Company enjoys a close association with this affiliate through common Board of Director membership and participation that allows for a significant amount of influence over affiliate business decisions. Accordingly, for financial statement purposes, the Company accounts for its investment in this affiliated entity under the equity method.

A summary of the unaudited financial statements of the affiliate as of September 30, 2011 is as follows:

Current assets	$5,720,681
Non-current assets	628,222
Total Assets	$6,348,903
Current liabilities	$3,052,501
Non-current liabilities	1,412,198
Stockholders' equity	1,884,204
Total Liabilities and Stockholders' Equity	$6,348,903
Revenues	$8,790,319
Operating income	417,654
Net profit	$185,872
Other comprehensive profit (loss):	
Foreign currency translation adjustment	-
Comprehensive net profit	$185,872
Company share of Net Profit at 11.54%	$21,457
Equity investment in affiliate	$178,606

Asset Impairment

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. In performing the review for recoverability, the future cash flows expected to result from the use of the asset and its eventual disposition are estimated. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized as the excess of the carrying amount over the fair value. Otherwise, an impairment loss is not recognized. Management estimates the fair value and the estimated future cash flows expected. Any changes in these estimates could impact whether there was impairment and the amount of the impairment.

Patent Costs

The Company estimates the patents it has filed have a future beneficial value; therefore it capitalizes the costs associated with filing for its patents. At the time the patent is approved, the patent costs associated with the patent are amortized over the useful life of the patent. If the patent is not approved, at that time the costs will be expensed. A change in the estimate of the patent having a future beneficial value will impact the other assets and expense accounts.

Derivative Liabilities

The Company accounts for its embedded conversion features and freestanding warrants pursuant to FASB Accounting Standards Codification No. 815 (“FASB ASC 815”), “Derivatives and Hedging ”, which requires a periodic valuation of the fair value of derivative instruments and a corresponding recognition of liabilities associated with such derivatives.

The recognition of derivative liabilities related to the issuance of shares of common stock is applied first to the proceeds of such issuance, at the date of issuance, and the excess of derivative liabilities over the proceeds is recognized as other expense in the accompanying consolidated financial statements. The recognition of derivative liabilities related to the issuance of convertible debt is applied first to the proceeds of such issuance as a debt discount, at the date of issuance, and the excess of derivative liabilities over the proceeds is recognized as other expense in the accompanying consolidated financial statements. Any subsequent increase or decrease in the fair value of the derivative liabilities is recognized as other expense or other income, respectively. The reclassification of a contract is reassessed at each balance sheet date. If a contract is reclassified from permanent equity to an asset or a liability, the change in the fair value of the contract during the period the contract was classified as equity is accounted for as an adjustment to equity. If a contract is reclassified from an asset or liability to equity, gains or losses recorded to account for the contract at fair value during the period that contract was classified as an asset or a liability are not reversed but instead are accounted for as an adjustment to equity.

Revenue Recognition
The recognition of revenues requires judgment, including whether a sale includes multiple elements, and if so, whether vendor-specific objective evidence (VSOE) of fair value exists for those elements. Customers receive certain elements of CUI Global products over a period of time. These elements include licensing rights to manufacture and sell our proprietary patent protected products. The ability to identify VSOE for those elements and the fair value of the respective elements could materially impact the amount of earned and unearned revenue. CUI Global does not have any history as to the costs expected to be incurred in granting licensing rights relating to its products. Therefore, revenues may be recorded that are not in proportion to the costs expected to be incurred in performing these services.

Revenues in connection with electronic devices and component sales by CUI, Inc. are recognized at the time the product is shipped to the customer.

Revenues in connection with product sales by CUI Japan and the discontinued operations of Comex Electronics are recognized at the time the product is shipped to the customer. VSOE sales also exist for CUI Japan and Comex Electronics related to the development of product for specific customers. The ability to identify VSOE for those elements and the fair value of the respective elements could materially impact the amount of earned and unearned revenue. VSOE sales are invoiced according to the related sales agreements.

Shipping and Handling Costs
Amounts billed to customers in sales transactions related to shipping and handling represent revenues earned for the goods provided and are included in sales. Costs of shipping and handling are included in cost of revenues.

Stock issued for services to other than Employees
Common stock, stock options and common stock warrants issued to other than employees or directors are recorded on the basis of their fair value, as required by FASB ASC 505, which is measured as of the date required by FASB ASC 505, “Equity – Based Payments to Non-Employees”. In accordance with FASB ASC 505, the stock options or common stock warrants are valued using the Black-Scholes option pricing model on the basis of the market price of the underlying common stock on the “valuation date,” which for options and warrants related to contracts that have substantial disincentives to non-performance is the date of the contract, and for all other contracts is the vesting date. Expense related to the options and warrants is recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period. Where expense must be recognized prior to a valuation date, the expense is computed under the Black-Scholes option pricing model on the basis of the market price of the underlying common stock at the end of the period, and any subsequent changes in the market price of the underlying common stock up through the valuation date is reflected in the expense recorded in the subsequent period in which that change occurs.

Foreign Currency Translation
The financial statements of the Company's foreign offices have been translated into U.S. dollars in accordance with FASB ASC 830, “Foreign Currency Matters” (FASB ASC 830). All balance sheet accounts have been translated using the exchange rate in effect at the balance sheet date. Income statement amounts have been translated using an appropriately weighted average exchange rate for the year. The translation gains and losses resulting from the changes in exchange rates during 2011 and 2010 have been reported in accumulated other comprehensive income, except for gains and losses resulting from the translation of intercompany receivables and payables, which are included in earnings for the period.

Segment Reporting
The Company has identified five operating segments based on the products offered and one discontinued operations segment. The five segments are External Power, Internal Power, Industrial Controls, Discontinued Operations and Other. The External Power segment is focused primarily on sales of external power supplies and related components. The Internal Power segment is focused primarily on sales of internal power supplies and related components. The Industrial Controls segment is focused primarily on sales of encoding devices and related components. The Discontinued Operations segment represents the operations of Comex Electronics which the Company entered into an agreement to divest effective July 1, 2011. The Other category represents activity of segments that do not meet the threshold for segment reporting and are combined.

The following information is presented for the nine months ended September 30, 2011 for operating segment activity:

	External Power	Internal Power	Industrial Controls	Discontinued Operations	Other	Totals
Revenues from external customers	$ 16,818,073	$9,915,316	$ 3,231,792	$ -	$ 182,447	$ 30,147,628
Intersegment revenues	$ -	$-	$ -	$ -	$ -	$ -
Derivative income	$ -	$-	$ -	$ -	$ -	$ -
Interest revenues	$ -	$-	$ -	$ -	$ 8,542	$ 8,542
Equity in profit (loss) of unconsolidated affiliate	$ -	$-	$ -	$ -	$ 21,457	$ 21,457
Interest expense - intrinsic value of convertible debt, amortization of debt offering costs and amortization of debt discount	$ -	$-	$ -	$ -	$ 316,414	$ 316,414
Interest expense	$ -	$-	$ -	$ -	$ 686,913	$ 686,913
Depreciation and amortization	$ -	$-	$ -	$ -	$ 605,402	$ 605,402
Segment profit (loss)	$ 6,049,994	$2,386,532	$ 508,637	$ 442,881	$ (9,210,083)	$ 177,961
Other significant non-cash items:						
Stock, options, warrants and notes issued for compensation and services	$ -	$-	$ -	$ -	$ 183,532	$ 183,532
Gain on divestment of Comex Electronics	$ -	$-	$ -	$ 603,034	$ -	$ 603,034
Segment assets	$ -	$-	$ -	$ -	$ 32,783,612	$ 32,783,612
Foreign currency translation adjustments	$ -	$-	$ -	$ -	$ 63,005	$ 63,005
Expenditures for segment assets	$ -	$-	$ -	$ -	$ 387,150	$ 387,150

The following information is presented for the nine months ended September 30, 2010 for operating segment activity:

	External Power	Internal Power	Industrial Controls	Discontinued Operations	Other	Totals
Revenues from external customers	$15,619,142	$6,360,109	$3,281,857	$ -	$1,021,700	$26,282,808
Intersegment revenues	$-	$-	$-	$ -	$-	$-
Derivative income	$-	$-	$-	$ -	$-	$-
Interest revenues	$-	$-	$-	$ -	$18,431	$18,431
Equity in profit (loss) of unconsolidated affiliate	$-	$-	$-	$ -	$50,796	$50,796
Interest expense - intrinsic value of convertible debt, amortization of debt offering costs and amortization of debt discount	$-	$-	$-	$ -	$3,668,122	$3,668,122
Interest expense	$-	$-	$-	$ -	$914,688	$914,688
Depreciation and amortization	$-	$-	$-	$ -	$550,126	$550,126
Segment profit (loss)	$5,048,250	$1,298,890	$568,187	$ (74,659)	$(10,251,649)	$(3,410,981)
Other significant non-cash items:						
Stock, options, warrants and notes issued for compensation and services	$-	$-	$-	$ -	$69,734	$69,734
Segment assets	$-	$-	$-	$ 4,220,018	$35,913,955	$40,133,973
Foreign currencty translation adjustments	$-	$-	$-	$ -	$(23,849)	$(23,849)
Expenditures for segment assets	$-	$-	$-	$ 41,767	$406,298	$448,065

Only the Discontinued Operations and Other operating segments hold assets individually. The External Power, Internal Power and Industrial Controls operating segments do not hold assets individually as segment assets as they utilize the Company assets held in the Other segment.

Discontinued Operations Summary Financial Information

The following is a summary statement of discontinued operations for the discontinued operations of Comex Electronics as of September 30, 2011:

Summary Statement of Operations:		Comex Electronics - Discontinued Operations
Total revenues	$	1,280,485
Cost of revenues		1,146,443
Gross profit		134,042
Selling, general, administrative and other		294,195
Operating (loss)	$	(160,153)

Reclassification
Certain amounts from prior period have been reclassified to conform to the current period presentation.

Recent Accounting Pronouncements
ASU No. 2011-03; Reconsideration of Effective Control for Repurchase Agreements. In April, 2011, the FASB issued ASU No. 2011-03. The amendments in this ASU remove from the assessment of effective control the criterion relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The amendments in this ASU also eliminate the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets.

The guidance in this ASU is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Company will adopt the methodologies prescribed by this ASU by the date required, and does not anticipate that the ASU will have a material effect on its financial position or results of operations.

ASU No. 2011-04; Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. In May, 2011, the FASB issued ASU No. 2011-04. The amendments in this ASU generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted.

The Company will adopt the methodologies prescribed by this ASU by the date required, and does not anticipate that the ASU will have a material effect on its financial position or results of operations.

ASU No. 2011-05; Amendments to Topic 220, Comprehensive Income. In June, 2011, the FASB issued ASU No. 2011-05. Under the amendments in this ASU, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income.

14

The amendments in this ASU should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. Due to the recency of this pronouncement, the Company is evaluating its timing of adoption of ASU 2011-05, but will adopt the ASU retrospectively by the due date.

On September 15, 2011, the FASB issued ASU 2011-08, Intangibles – Goodwill and Other, which simplifies how an entity is required to test goodwill for impairment. This ASU would allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under the ASU, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The ASU includes a number of factors to consider in conducting the qualitative assessment. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. This standard is not expected to have a material impact on the Company's reported results of operations or financial position.

3. INCOME (LOSS) PER COMMON SHARE

Common stock equivalents in the three and nine months ended September 30, 2010 were anti-dilutive, thus the diluted weighted average common shares outstanding for this period are the same as the basic weighted average common shares outstanding.

At September 30, 2011 and 2010, respectively, 5,800,623 and 21,035,683 potential common stock shares are issuable upon the exercise of warrants and options and conversion of debt to common stock. For the three and nine months ended September 30, 2011, 8,401,155 and 7,068,655 shares, respectively, related to warrants and options were excluded from the September 30, 2011 computation of diluted earnings per share as they were anti-dilutive due to their exercise price being in excess of the average close price for the three and nine month period ended or they were not yet vested.

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Consolidated Net profit (loss) from continuing operations	$ 111,688	$ (59,799)	$ (264,920)	$ (3,336,322)
Net profit (loss) from discontinued operations	$ 312,635	$ 5,213	$ 442,881	$ (74,659)
Less: Net profit (loss) from discontinued operations -noncontrolling interest	$ -	$ 2,659	$ 67,872	$ (38,686)
Net profit (loss) from disconitinued operations attributable to CUI Global, Inc.	$ 312,635	$ 2,554	$ 375,009	$ (35,973)
Net profit (loss) for the period attributable to CUI Global, Inc.	$ 424,323	$ (57,245)	$ 110,089	$ (3,372,295)
Weighted average number of shares outstanding	219,282,472	196,478,788	216,859,788	183,860,295
Weighted average number of common and common equivalent shares	219,282,472	196,478,788	216,859,788	183,860,295
Basic profit (loss) per common share from continuing operations	$ 0.00	$ (0.00)	$ (0.00)	$ (0.02)
Basic profit (loss) per common share from discontinued operations - attributable to CUI Global, Inc.	$ 0.00	$ 0.00	$ 0.00	$ (0.00)
Basic profit (loss) per common share	$ 0.00	$ (0.00)	$ 0.00	$ (0.02)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Consolidated Net profit (loss) from continuing operations	$ 111,688	$ (59,799)	$ (264,920)	$ (3,336,322)
Net profit (loss) from discontinued operations	$ 312,635	$ 5,213	$ 442,881	$ (74,659)
Less: Net profit (loss) from discontinued operations -noncontrolling interest	$ -	$ 2,659	$ 67,872	$ (38,686)
Net profit (loss) from disconitinued operations attributable to CUI Global, Inc.	$ 312,635	$ 2,554	$ 375,009	$ (35,973)
Net profit (loss) for the period attributable to CUI Global, Inc.	$ 424,323	$ (57,245)	$ 110,089	$ (3,372,295)
Add: Adjustment for interest on 12% convertible note	-	-	-	-
Adjusted net income (loss)	$ 424,323	$ (57,245)	$ 110,089	$ (3,372,295)
Weighted average number of shares outstanding	219,282,472	196,478,788	216,859,788	183,860,295
Add: Warrants and options as of beginning of period	447,923	-	477,781	-
Warrants and options as of date of vesting	-	-	-	-
Convertible preferred shares oustanding	252,715	-	252,715	-
12% convertible notes as of end of period	-	-	-	-
Weighted average number of common and	219,983,110	196,478,788	217,590,284	183,860,295

common equivalent shares				
Diluted profit (loss) per common share from continuing operations	$ 0.00	$ (0.00)	$ (0.00)	$ (0.02)
Diluted profit (loss) per common share from discontinued operations - attributable to CUI Global, Inc.	$ 0.00	$ 0.00	$ 0.00	$ (0.00)
Diluted profit (loss) per common share	$ 0.00	$ (0.00)	$ 0.00	$ (0.02)

4. INCOME TAXES

An income tax benefit has not been recognized for operating losses generated in prior periods based on uncertainties concerning the ability to generate taxable income in future periods. The tax benefit as of the nine months ended September 30, 2011 and 2010 is offset by a valuation allowance established against deferred tax assets arising from operating losses and other temporary differences, the realization of which could not be considered more likely than not. In future periods, tax benefits and related deferred tax assets will be recognized when management considers realization of such amounts to be more likely than not.

5. WORKING CAPITAL LINE OF CREDIT

At September 30, 2011, the Company maintained a $4,000,000 revolving working capital line of credit with the Business Credit division of Wells Fargo Capital Finance, part of Wells Fargo Bank, National Association (NYSE: WFC), interest payable monthly at the Daily Three Month LIBOR plus 3.75% (4.119% at September 30, 2011). The Wells Fargo LOC expires July 31, 2013. As of the date of this filing, the Company is compliant with all covenants on the new line of credit with Wells Fargo Capital Finance. At September 30, 2011, the balance outstanding on the line of credit was $2,223,431.

6. OPTIONS AND WARRANTS

On May 15, 2008, the Board of Directors approved the Waytronx, Inc. 2008 Equity Incentive Plan ("2008 Plan") for 1,500,000 shares of the Company's common stock. The 2008 Plan provides for the issuance of stock options to attract, retain and motivate employees, to encourage employees, directors and independent contractors to acquire an equity interest in the Company, to make monetary payments to certain employees based upon the value of the Company's stock, and provide employees, directors and independent contractors with an incentive to maximize the success of the Company and further the interest of the shareholders. The 2008 Plan provides for the issuance of Incentive Stock Options and Non Statutory Options. The Administrator of the plan shall determine the exercise price per share at the time the option is granted, but the exercise price shall not be less than the fair market value on the date the option is granted. Stock options granted under the 2008 Plan have a maximum duration of 10 years.

At the 2009 Annual Meeting of Shareholders held on September 29, 2009, the shareholders approved an amendment to the 2008 Equity Incentive Plan to increase the number of common shares issuable under the plan from 1,500,000 to 3,000,000. All of these shares have been registered under Form S-8.

The 2008 Equity Incentive Plans is intended to: (a) provide incentive to employees of the Company and its affiliates to stimulate their efforts toward the continued success of the Company and to operate and manage the business in a manner that will provide for the long-term growth and profitability of the Company; (b) encourage stock ownership by employees, directors and independent contractors by providing them with a means to acquire a proprietary interest in the Company by acquiring shares of Stock or to receive compensation which is based upon appreciation in the value of Stock; and (c) provide a means of obtaining and rewarding employees, directors, independent contractors and advisors.

The 2008 Equity Incentive Plans provide for the issuance of incentive stock options (ISOs) and Non Statutory Options (NSOs) to employees, directors and independent contractors of the Company. The Board shall determine the exercise price per share in the case of an ISO at the time an option is granted and such price shall be not less than the fair market value or 110% of fair market value in the case of a ten percent or greater stockholder. In the case of an NSO, the exercise price shall not be less than the fair market value of one share of stock on the date the option is granted. Unless otherwise determined by the Board, ISOs and NSOs granted under the both plans have a maximum duration of 10 years.

On January 5, 2009 the Company Board of Directors received and approved a written report and recommendations of the Compensation Committee which included a detailed executive equity compensation report and market analysis and the recommendations of Compensia, Inc., a management consulting firm that provides executive compensation advisory services to compensation committees and senior management of knowledge-based companies. The Compensation Committee used the report and analysis as a basis for its formal written recommendation to the Board. Pursuant to a January 8, 2009 board resolution the 2009 Equity Incentive Plan (Executive), a Non-Qualified Stock Option Plan, was created and funded with 4,200,000 shares of $0.001 par value common stock. The Compensation Committee was appointed as the Plan Administrator to manage the plan. On October 11, 2010, CUI Global authorized an additional 3,060,382 options under the 2009 Equity Incentive Plan (Executive).

The 2009 Equity Incentive Plan (Executive) provides for the issuance of Incentive Non Statutory Options to attract, retain and motivate executive and management employees and directors and to encourage these individuals to acquire an equity interest in the Company, to make monetary payments to certain management employees and directors based upon the value of the Company's stock and to provide these individuals with an incentive to maximize the success of the Company and further the interest of the shareholders. The Administrator of the plan is authorized to determine the exercise price per share at the time the option is granted, but the exercise price shall not be less than the fair market value on the date the option is granted. Stock options granted under the 2009 Plan have a maximum duration of 10 years.

At December 31, 2010, there were 3,492,382 non-vested stock options. The fair value of each stock option is estimated on the date of grant using a Black Scholes Pricing Model. During the nine months ended September 30, 2011, the Company granted no stock options.

The following information is presented for the stock option activity for the nine months ended September 30, 2011:

	Number of Warrants and Options	Weighted Average Exercise Price	Weighted Average Remaining Contract Life
Outstanding at December 31, 2010	8,801,155	$ 0.25	8.37 Years
Exercised	(30,000)	$ 0.19	
Expired	(195,000)	$ 0.03	
Forfeited	-	$ -	
Granted	-	$ -	
Outstanding at September 30, 2011	8,576,155		