CUI Global, Inc.
Form 10-Q
May 19, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014

Commission File Number 0-29923

CUI Global, Inc.

(Exact name of registrant as specified in its charter)

Colorado	84-1463284
(State or jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

20050 SW 112th Avenue

Tualatin, Oregon 97062

(503) 612-2300.

(Address and Telephone Number of Principal Executive Offices)

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 ¨

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 x NO ¨

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ¨ NO x

As of May 19, 2014, there were 20,628,448 shares of the Company's common stock outstanding and no shares of preferred stock outstanding.

CUI Global, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CUI Global, Inc.

Condensed Consolidated Balance Sheets

	March 31, 2014 (unaudited)	December 31, 2013
Assets:		
Current Assets:		
Cash and cash equivalents	$15,235,396	$ 16,575,508
Short term investments held to maturity	11,733,934	10,868,961
Trade accounts receivable, net of allowance of $187,009 and $285,348, respectively	10,729,587	9,055,561
Inventories, net of allowance of $552,466 and $549,981, respectively	6,811,660	7,027,644
Costs in excess of billings	404,818	552,012
Prepaid expenses and other	1,173,773	603,960
Total current assets	46,089,168	44,683,646
Property and equipment, net	8,401,164	8,206,563
Other assets:		
Investment - equity method	298,381	283,011
Other intangible assets, net	22,782,154	23,512,394
Deposits and other	33,718	25,364
Notes receivable, net of allowance of $564,194 and $564,194	-	-
Goodwill, net	22,536,713	22,448,613
Total other assets	45,650,966	46,269,382
Total assets	$100,141,298	$ 99,159,591
Liabilities and stockholders' equity:		
Current liabilities:		
Accounts payable	$5,241,673	$ 4,146,262
Mortgate note payable, current portion	77,789	76,814
Leases payable, current	78,741	83,904
Accrued expenses	1,705,895	2,253,773
Accrued taxes payable	462,821	263,804
Accrued compensation	570,279	426,402
Billings in excess of costs	6,446,357	6,787,231
Unearned revenue	1,669,386	1,257,346
Total current liabilities	16,252,941	15,295,536

Long term leases payable	102,532	58,363
Derivative liability	483,398	427,818
Long term mortgage note payable, net of current portion due of $77,789 and $76,814, respectively	3,584,226	3,604,242
Long term notes payable, related party	5,303,683	5,303,683
Deferred tax liabilities, net	2,957,448	3,111,361
Total long term liabilities	12,431,287	12,505,467
Total liabilities	28,684,228	27,801,003
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.001; 325,000,000 shares authorized; 20,620,358 shares issued and outstanding at March 31, 2014 and 20,566,663 shares issued and outstanding at December 31, 2013	20,620	20,567
Additional paid-in capital	146,954,437	146,614,995
Accumulated deficit	(77,602,853)	(77,114,935)
Accumulated other comprehensive gain	2,084,866	1,837,961
Total stockholders' equity	71,457,070	71,358,588
Total liabilities and stockholders' equity	$100,141,298	$ 99,159,591

See accompanying notes to condensed consolidated financial statements

CUI Global, Inc.

Condensed Consolidated Statements of Operations

(unaudited)

	For the three months ended March 31, 2014	2013
Revenues:		
Product Sales	$ 16,890,121	$ 10,052,246
Revenue from freight	9,788	7,114
Total revenue	16,899,909	10,059,360
Cost of revenues	9,905,687	6,115,212
Gross profit	6,994,222	3,944,148
Operating expenses		
Selling, general and administrative	6,191,700	3,938,621
Depreciation and amortization	1,053,013	143,529
Research and development	269,852	244,690
Bad debt	(108,000)	(5,000)
Total operating expenses	7,406,565	4,321,840
Loss from operations	(412,343)	(377,692)
Other income (expense)		
Other income	81,869	61,238
Other expense	(5,049)	(4,945)
Unrealized (loss) on derivative	(55,580)	-
Earnings from equity investment	15,370	2,103
Amortization of investment premiums and discounts	(14,982)	-
Amortization of debt offering costs and debt discount	-	(18,333)
Interest expense	(125,491)	(114,474)
Total other income (expense), net	(103,863)	(74,411)
Loss before taxes	(516,206)	(452,103)
(Benefit) provision for taxes	(28,288)	9,989
Consolidated net (loss)	$ (487,918)	$ (462,092)
Basic and diluted (loss) per common share	$ (0.02)	$ (0.04)
Basic weighted average common and common equivalent shares outstanding	20,587,523	10,883,280

See accompanying notes to condensed consolidated financial statements

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CUI Global, Inc.

Condensed Consolidated Statements of Comprehensive Gain and Loss

(unaudited)

	For the three months ended March 31, 2014	2013
Consolidated net (loss)	$ (487,918)	$ (462,092)
Other comprehensive income (loss)		
Foreign currency translation adjustment	246,905	(20,770)
Consolidated comprehensive net (loss)	$ (241,013)	$ (482,862)

See accompanying notes to condensed consolidated financial statements

CUI Global, Inc.

Condensed Consolidated Statements of Changes in Stockholders' Equity

(unaudited)

	For the three months ended March 31, 2014					
	Common Stock and Common Stock Issuable		Additional	Accumulated	Accumulated Other	Total Stockholders'
	Shares	Amount	Paid-in capital	Deficit	Comprehensive Gain	Equity (Deficit)
Balance, December 31, 2013	20,566,663	$20,567	$146,614,995	$(77,114,935)	$ 1,837,961	$71,358,588
Options granted for services and compensation	-	-	156,248	-	-	156,248
Common stock issued for exercises of options	23,608	24.00	(24)	-	-	-
Common stock issued for services and compensation	27,407	26	164,973	-	-	164,999
Common stock issued for royalties	2,680	3	18,245	-	-	18,248
Net loss for the period ended March 31, 2014	-	-	-	(487,918)	-	(487,918)
Other comprehensive gain	-	-	-	-	246,905	246,905
Balance, March 31, 2014	20,620,358	$20,620	$146,954,437	$(77,602,853)	$ 2,084,866	$71,457,070

See accompanying notes to condensed consolidated financial statements

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CUI Global, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

	For the three months ended March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)	$ (487,918)	$ (462,092)
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
Stock, warrants, options and notes issued for compensation and services	224,495	87,789
Unrealized loss on derivative	55,580	-
Non-cash interest expense, including amortization of debt offering costs	-	18,333
Non-cash profit on equity method investment	(15,370)	(2,103)
Allowance for bad debt expense and returns allowance	(108,000)	(5,000)
Amortization of intangibles	862,970	67,527
Deferred income taxes	(181,057)	-
Inventory reserve	2,485	(30,000)
(Gain) loss on disposal of assets	4,754	-
Depreciation	255,475	143,609
(Increase) decrease in assets:		
Trade accounts receivable	(1,535,010)	1,133,052
Inventories	236,996	(289,625)
Costs in excess of billings	152,182	-
Prepaid expenses and other current assets	(431,235)	(684,307)
Deposits and other assets	(8,354)	10,380
Increase (decrease) in liabilities:		
Accounts payable	1,075,676	(237,010)
Accrued expenses	(553,904)	214,090
Accrued compensation	141,402	(25,259)
Accrued taxes payable	196,467	-
Unearned revenue	412,040	123,124
Billings in excess of costs	(402,209)	-
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(102,535)	62,508
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of short term investments held to maturity	(864,973)	-
Purchase of property and equipment	(356,423)	(103,955)
NET CASH (USED IN) INVESTING ACTIVITIES	(1,221,396)	(103,955)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (payments to) demand notes payable, net of debt offering costs	-	(459,448)
Proceeds from (payments to) leases payable, net of proceeds	(42,118)	-
Proceeds from (payments to) notes and loans payable	(19,041)	-

NET CASH (USED IN) FINANCING ACTIVITIES	(61,159)	(459,448)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	44,978	(20,770)
Cash and cash equivalents at beginning of period	16,575,508	3,039,840
Cash and cash equivalents at end of period	15,235,396	2,518,175
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (1,340,112)	$ (521,665)

(Continued)

CUI Global, Inc.

Condensed Consolidated Statements of Cash Flows (continued)

(unaudited)

	For the three months ended March 31,	
	2014	2013
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	$ 104,868	$ 34,585
Interest paid	$ 127,048	$ 114,432
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:		
Capital leases	$ 79,839	$ -

See accompanying notes to condensed consolidated financial statements

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CUI Global, Inc.

Notes to the Condensed Consolidated Financial Statements

(unaudited)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The accompanying interim unaudited condensed consolidated 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 consolidated 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/A for the year ended December 31, 2013.

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 December 31, 2014.

CUI Global 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 an 11.54% interest thru June 30, 2013, 8.62% thru December 31, 2013 and 8.94% thereafter) 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.

CUI’s capabilities and extensive contacts throughout Asia, 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 and Solus power products, the 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, Inc. products are electronic components including connectors, speakers, buzzers and control solutions including encoders and sensors; power solutions known as V-Infinity and test and (2) measurement devices. These offerings provide a technology architecture that addresses power and related accessories as well as test and measurement capabilities to industries ranging from consumer electronics to defense and alternative energy.

In July 2009 CUI Global acquired, as a wholly owned subsidiary, Comex Instruments, Ltd., now known as CUI Japan.

In April 2013, CUI Global acquired 100% of the capital stock of Orbital Gas Systems Limited (Orbital), a United Kingdom-based provider of natural gas infrastructure and advanced technology, including metering, odorization, remote telemetry units ("RTU") and a diverse range of personalized gas engineering solutions to the gas utilities, power generation, emissions, manufacturing and automotive industries. The GasPT2 technology products are sold through Orbital.

During the quarter ended March 31, 2014, total revenues at CUI Global consisted of 64% from CUI, Inc. and CUI Japan and 36% from Orbital.

2.SUMMARY OF SIGNIFICANT 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 include estimates used to review the Company's goodwill, impairments and estimations of long-lived assets, revenue recognition on percentage of completion type contracts, allowances for uncollectible accounts, inventory valuation, valuation of non-cash capital stock issuances and the valuation allowance on deferred tax assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Principles of Consolidation

The condensed consolidated financial statements for 2014 include the accounts of CUI Global, Inc. and its wholly owned subsidiaries CUI, Inc., CUI Japan, CUI Properties, LLC and Orbital Gas Systems, Ltd., hereafter referred to as the "Company". The condensed consolidated financial statements for 2013 include the accounts of CUI Global, Inc. and its wholly owned subsidiaries CUI, Inc., CUI Japan, CUI Properties, LLC, and Orbital Gas Systems, Ltd. (included since April 1, 2013). Significant intercompany accounts and transactions have been eliminated in consolidation.

Fair Value of Financial Instruments

Accounting Standards Codification ("ASC") 820 " Fair Value Measurements and Disclosures" ("ASC 820") defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles in the U.S., and enhances disclosures about fair value measurements. ASC 820 describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which are the following:

- Level 1 – Pricing inputs are quoted prices available in active markets for identical assets or liabilities as of the reporting date.

- Level 2 – Pricing inputs are quoted for similar assets, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes assets or liabilities valued at quoted prices adjusted for legal or contractual restrictions specific to these investments.

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- Level 3 – Pricing inputs are unobservable for the assets or liabilities; that is, the inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability.

Management believes the carrying amounts of the short-term financial instruments, including cash and cash equivalents, accounts receivable, costs in excess of billings, prepaid expense and other assets, accounts payable, accrued liabilities, billings in excess of costs, unearned revenue, and other liabilities reflected in the accompanying condensed consolidated balance sheets approximate fair value at March 31, 2014 and December 31, 2013 due to the relatively short-term nature of these instruments. The Company measures its derivative liability on a recurring basis using significant observable inputs (Level 2). The Company's derivative liability is valued using a LIBOR swap curve.

Cash and Cash Equivalents

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. The Company considers all highly liquid marketable securities with original maturities of 90 days or less at the date of acquisition to be cash equivalents. Cash equivalents include money market funds, certificates of deposit and commercial paper. At March 31, 2014, the Company had $2,892,717 of cash and cash equivalents balances at domestic financial institutions which were covered under the FDIC insured deposits programs and $141,415 at foreign financial institutions covered under the United Kingdom Financial Services Compensation (FSC). At March 31, 2014 the Company had cash and cash equivalents of $119,494 in Japanese bank accounts and $6,159,458 in European bank accounts.

Investments

The Company considers all investments with original maturities over 90 days that mature in less than one year from the balance sheet date to be short-term investments. Both short- and long-term investments primarily include money market funds, certificates of deposit, corporate notes, and commercial paper. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using a method that approximates the effective interest method. Under this method, dividend and interest income are recognized when earned. At March 31, 2014, CUI Global had $11,733,934 of short-term investments classified as held-to-maturity, which are reported at amortized cost, which approximates market. At March 31, 2014, the Company had $8,410,000 of investments in certificates of deposit which were covered under FDIC insured limits and covered under $500,000 of SIPC insured programs for investments.

Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable consist of the receivables associated with revenue derived from product sales. An allowance for uncollectible accounts is recorded to allow for any amounts that may not be recoverable, based on an analysis of prior collection experience, customer credit worthiness and current economic trends. Based on management's review of accounts receivable, an allowance for doubtful accounts of $187,009 at March 31, 2014 is considered adequate. The reserve in both periods takes into account aged receivables that management believes should be specifically reserved for as well as historic experience with bad debts to determine the total reserve appropriate for each period. Receivables are determined to be past due based on the payment terms of original invoices. The Company grants credit to its customers, with standard terms of Net 30 days. The Company routinely assesses the financial strength of its customers and, therefore, believes that its accounts receivable credit risk exposure is limited. Additionally, the Company maintains a foreign credit receivables insurance policy that covers many of the CUI, Inc. foreign customer receivable balances in effort to further reduce credit risk exposure. Included in the accounts receivable balance at March 31, 2014 is $0 of balances billed but not paid by a customer under retainage provisions.

Inventory

Inventories consist of finished and un-finished products and are stated at the lower of cost or market; using the first-in, first-out (FIFO) method as a cost flow convention. At March 31, 2014, inventory is valued, net at $6,811,660. The Company provides allowances for inventories estimated to be excess, obsolete or unmarketable. The Company’s estimation process for assessing the net realizable value is based upon its known backlog, projected future demand, historical usage and expected market conditions. At March 31, 2014, CUI had finished goods of $5,815,066, raw materials of $1,479,331, and work in process of $69,729.

Land, Buildings, Furniture, Vehicles, Equipment and Software

Land is recorded at cost and includes expenditures made to ready it for use. Land is considered to have an infinite useful life.

Buildings are recorded at cost and are depreciated over their estimated useful lives.

Furniture, vehicles, 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, vehicles 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, vehicles, 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 for land, buildings, furniture, vehicles, equipment and software are as follows:

Estimated Useful Life	
Land	Infinite
Buildings	39 years
Furniture and equipment	3 to 10 years
Vehicles	3 to 5 years

Software	3 to 5 years

Long-Lived Assets

Long-lived assets and certain identifiable assets related to those assets are periodically reviewed for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts 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 long-lived 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.

Identifiable Intangible Assets

Intangible assets are stated at cost net of accumulated amortization and impairment. The fair value for intangible assets acquired through acquisitions is measured at the time of acquisition utilizing the following inputs, as needed:

1. Inputs used to measure fair value are unadjusted quote prices available in active markets for the identical assets or liabilities if available.
2. Inputs used to measure fair value, other than quoted prices included in 1, are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in inactive markets. This includes assets and liabilities valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full life of the asset.
3. Inputs used to measure fair value are unobservable inputs supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.
4. Expert appraisal and fair value measurement as completed by third party experts.

The following are the estimated useful life for the intangible assets:

	Estimated Useful Life	
Finite-lived intangible assets		
Order backlog	2	
Tradename - Orbital	10	
Tradename - V-Infinity	5	
Customer list - Orbital	10	
Technology rights	20	*
Technology-Based Asset-Know How	12	
Technology -Based Asset - Software	10	
Patents	**	
Other intangible assets	***	
Indefinite-lived intangible assets		
Tradename - CUI	****	
Customer list - CUI	****	
Patents pending technology	****	

* Technology rights are amortized over a twenty year life or the term of the rights agreement.

** Patents are amortized over the life of the patent. Any patents not approved will be expensed at that time.

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***Other intangible assets are amortized over their estimated useful life.

**** Indefinite-lived intangible assets are reviewed annually for impairment and when circumstances suggest.

Goodwill Assets

The Company tests for goodwill impairment in the second quarter of each year and whenever events or circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. For the year ended December 31, 2013, the Company determined there was no impairment of goodwill. For the quarter ended March 31, 2014, no events or triggering events requiring impairment analysis occurred.

Investment – Equity Method

Through the acquisition of CUI, Inc. the Company obtained 352,589 common shares (representing an 11.54% interest thru June 30, 2013, 8.62% thru December 31, 2013 and 8.94% thereafter) in Test Products International, Inc., hereafter referred to as TPI. TPI is a provider of handheld test and measurement equipment. Under the equity method, investments are carried at cost, plus or minus the Company's proportionate share, based on present ownership interests, of: (a) the investee's profit or loss after the date of acquisition; (b) changes in the Company's equity that have not been recognized in the investee's profit or loss; and (c) certain other adjustments. CUI Global 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 financial statements of the affiliate as of and for the three months ended March 31, 2014 is as follows:

Current assets	$6,549,324
Non-current assets	241,193
Total Assets	$6,790,517
Current liabilities	$2,547,396
Non-current liabilities	657,930
Stockholders' equity	3,585,191
Total Liabilities and Stockholders' Equity	$6,790,517
Revenues	$3,163,031
Operating income	200,831
Net profit	171,949
Other comprehensive profit (loss):	
Foreign currency translation adjustment	-
Comprehensive net profit	171,949
Company share of Net Profit	15,370
Equity investment in affiliate	$298,381

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.

Derivative instruments

The Company uses various derivative instruments including forward currency contracts, and interest rate swaps to manage certain exposures. These instruments are entered into under the Company's corporate risk management policy to minimize exposure and are not for speculative trading purposes. The Company recognizes all derivatives as either assets or liabilities in the condensed consolidated balance sheet and measures those instruments at fair value. Changes in the fair value of derivatives are recognized in earnings. The Company has limited involvement with derivative instruments and does not trade them. From time to time, the Company may enter into foreign currency exchange contracts to minimize the risk associated with foreign currency exchange rate exposure from expected future cash flows. The Company has entered into one interest rate swap which as a maturity date of ten years from the date of inception, and is used to minimize the interest rate risk on the variable rate mortgage. During the three months ended March 31, 2014, the Company recognized $55,580 of expense related to the derivative liabilities.

Derivative Liabilities

The Company evaluates 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.

Stock-Based Compensation

The Company records its stock-based compensation expense under our stock option plans. A detailed description of the awards under these plans and the respective accounting treatment is included in the "Notes to the Consolidated Financial Statements" included in our Annual Report on Form 10-K/A for the year ended December 31, 2013. The Company recorded stock-based compensation expense of $156,248 for the three months ended March 31, 2014.

Revenue Recognition

Product revenue is recognized in the period when persuasive evidence of an arrangement with a customer exists, the products are shipped and title has transferred to the customer, the price is fixed or determinable, and collection is reasonably assured. The Company sells to distributors pursuant to distribution agreements that have certain terms and conditions such as the right of return and price protection which inhibit revenue recognition unless they can be reasonably estimated as we cannot assert the price is fixed and determinable and estimate returns. For one distributor that comprises 31% of revenue for the three months ended March 31, 2014, we have such history and ability to estimate and therefore recognized revenue upon sale to the distributor and record a corresponding reserve for the estimated returns. For a different distributor arrangement, we do not have sufficient history to reasonably estimate price protection reserve and the right of return and accordingly defer revenue and the related costs until such time as the distributor resells the product.

Revenues and related costs on production type contracts, are recognized using the "percentage of completion method" of accounting in accordance with ASC 605-35, *Accounting for Performance of Construction-Type and Certain Production Type Contracts* ("ASC 605-35"). Under this method, contract revenues and related expenses are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Costs include direct material, direct labor, subcontract labor and any allocable indirect costs. All un-allocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss as it is determined. Contract costs plus recognized profits are accumulated as deferred assets, and billings and/or cash received are recorded to a deferred revenue liability account. The net of these two accounts for any individual project is presented as "Costs in excess of billings," an asset account, or "Billings in excess of costs," a liability account. At March 31, 2014, the Costs in excess of billings balance was $404,818 and the Billings in excess of costs balance was $6,446,357.

Production type contracts that do not qualify for use of the percentage of completion method are accounted for using the "completed contract method" of accounting in accordance with ASC 605-35-25-57. Under this method, contract costs are accumulated as deferred assets, and billings and/or cash received is recorded to a deferred revenue liability account, during the periods of construction, but no revenues, costs, or profits are recognized in operations until the period within which completion of the contract occurs. A contract is considered complete when all costs except insignificant items have been incurred; the equipment is operating according to specifications and has been accepted by the customer. The Company also uses the completed contract method for short term contracts since the effect on the financial statements would not be materially different than what it would be if percentage of completion were used.

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. The Company expenses inbound shipping and handling costs as cost of revenues.

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 2014, 2013 and 2012 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

For the quarter ended March 31, 2013, the Company operated in one operating segment based on the activities for the company in accordance with ASC 280-10. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

Following the acquisition of Orbital Gas Systems Limited in April 2013, management has identified three operating segments based on the activities of the company in accordance with the ASC 280-10. The three segments are Power and Electro-Mechanical, Gas and Other. The Power and Electro-Mechanical segment is focused on the operations of CUI, Inc. and CUI Japan for the sale of internal and external power supplies and related components, industrial controls and test and measurement devices. The Gas segment is focused on the operations of Orbital Gas Systems Limited which includes gas related test and measurement systems, including the GasPT2. The Other segment represents the remaining activities that do not meet the threshold for segment reporting and are combined.

The following information represents segment activity for the three months ended March 31, 2014:

	Power and Electro-Mechanical	Gas	Other	Totals
Revenues from external customers	$10,830,307	$6,069,602	$-	$16,899,909
Depreciation and amortization	$240,211	$874,859	$3,375	$1,118,445
Earnings from equity investment	$15,370	$-	$-	$15,370
Interest expense	$57,510	$1,685	$66,296	$125,491
Income (loss) from operations	$1,038,390	$(283,888)	$(1,166,845)	$(412,343)
Segment assets	$42,078,426	$41,933,160	$16,129,712	$100,141,298
Intangible assets	$8,272,786	$14,498,774	$10,594	$22,782,154
Goodwill, net	$13,039,515	$9,497,198	$-	$22,536,713
Expenditures for segment assets	$269,498	$86,925	$-	$356,423

Prior to the acquisition of Orbital, the Company operated under a single reporting segment.

Reclassification

Certain amounts from the prior period have been reclassified to the current period presentation. For the three months ended March 31, 2013, $67,607 of depreciation and amortization expense was reclassified to cost of revenues on the condensed consolidated statements of operations.

Recent Accounting Pronouncements

Recent accounting pronouncements adopted during the first three months of 2014 are as follows:

In March 2013, the FASB issued Accounting Standards Update 2013-05, "*Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.*" ASU 2013-05 provides updated guidance to clarify a parent company's accounting for the release of the cumulative translation adjustment into net income upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. This guidance is effective for periods beginning after December 15, 2013, and is to be applied prospectively to derecognition events occurring after the effective date. This ASU did not have a impact on the Company's consolidated financial statements or financial statement disclosures.

In July 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-11, *"Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Credit Carryforward Exists."* ASU No 2013-11 provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carry forward exists. The amendments in this update are effective for fiscal years and interim reporting periods beginning after December 15, 2013. The adoption of this provision did not have a impact on the Company’s financial condition or results of operations.

3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Company's fair value hierarchy for its cash equivalents, marketable securities and derivative instruments as of March 31, 2014 and March 31, 2013, respectively, was as follows:

March 31, 2014	Level 1	Level 2	Level 3	Total
Money market securities	$4,684,956	$-	$ -	$4,684,956
Certificates of Deposit	8,410,000	-	-	8,410,000
Commercial Paper	-	1,498,432	-	1,498,432
Corporate Notes	-	1,825,502	-	1,825,502
Total assets	$13,094,956	$3,323,934	$ -	$16,418,890
Derivative liability		$483,398	$ -	$483,398
Total liabilities	$-	$483,398	$ -	$483,398

December 31, 2013	Level 1	Level 2	Level 3	Total
Money market securities	$5,367,633	$-	$-	$5,367,633
Certificates of Deposit	9,750,000	-	-	9,750,000
Commercial Paper	-	999,789	-	999,789
Corporate Notes	-	1,118,961	-	1,118,961
Total assets	$15,117,633	$2,118,750	$-	$17,236,383
Derivative liability		$-	$427,818	$427,818
Total liabilities	$-	$-	$427,818	$427,818

The following table presents a reconciliation of transfers between Level 3 and Level 2 as determined at the end of the reporting period and principally the result from changes in the significance of unobservable inputs used to calculated the credit valuation adjustment:

	Three Months Ended March 31, 2014 Derivative Liability
Balance at December 31, 2013	$ 427,818
Transfer of liabilites out of Level 3	$ (427,818)
Balance at March 31, 2014	$ -

4. ACQUISITION

Effective April 1, 2013, CUI Global closed on a share purchase agreement to acquire 100% of the equity interest in Orbital Gas Systems Limited, a company organized under the laws of England and Wales ("Orbital"), from Orbital's sole shareholder. The purchase price for the acquisition of Orbital was £17,000,000 British pounds sterling ("£"), ($26,205,500), subject to purchase price adjustments, 100% of the purchase price was paid in cash. To secure indemnification obligation, 5.0% of the purchase price, or £850,000, was held in escrow through December 1, 2013.

We funded the consideration paid to the shareholder of Orbital with a portion of the net proceeds received from a public offering of our $0.001 par value common stock that was registered on an SEC Form S-1 registration statement declared effective by the SEC on April 11, 2013. Subsequent to closing on this acquisition, Orbital Gas Systems, Ltd. became a wholly owned subsidiary of CUI Global, Inc.

The acquisition was accounted for using the acquisition method of accounting and the purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition.

The allocation of the purchase price is as follows:

Purchase price	$26,205,500
Cash and cash equivalents	8,495,993
Trade accounts receivable, net	5,597,361
Unbilled accounts receivable	66,109
Inventory, net	445,119
Costs in excess of billings	350,943
Other current assets	20,892
Property & equipment, net	1,562,908
Intangible, customer lists	7,180,307
Intangible, order backlog	3,434,462
Intangible, tradename	1,846,717
Intangible, technology-based asset know how	2,908,811
Intangible, technology-based asset software	630,474
Goodwill	8,799,622
Liabilities assumed	(11,419,029)
Deferred tax liability	(3,715,189)
	$26,205,500

Key factors that make up the goodwill created by the transaction include knowledge and experience of the acquired workforce and infrastructure and expected synergies from the combination of operations as it pertains to the gas segment of CUI Global.

The table below summarizes the unaudited condensed pro forma information of the results of operations of CUI Global, Inc. for the quarter ended March 31, 2013 as though the acquisition had been completed as of January 1, 2013:

	CUI Global	Orbital Gas Systems Ltd.	Adjustments	Pro Forma
Gross revenue	$10,059,360	$4,569,510	$ -	$14,628,870
Total expenses	10,521,452	5,383,677	588,343	16,493,472
Net profit (loss)	$(462,092)	$(814,167)		$(1,864,602)

(1) Adjustment to recognize the amortization expense of $731,345 of acquisition related intangible assets and a tax benefit of $143,002 as though the acquisition had occurred at the beginning of the period.

The above unaudited condensed pro forma information does not purport to represent what the Companies' combined results of operations would have been if such transactions had occurred at the beginning of the periods presented, and are not indicative of future results.

5. LOSS PER COMMON SHARE

In accordance with FASB Accounting Standards Codification No. 260 (“FASB ASC 260”), “Earnings per Share”, basic net profit (loss) per share is computed by dividing the net profit (loss) available to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted net profit (loss) per share is computed by dividing net profit (loss) available to common stockholders by the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares outstanding as of March 31, 2014, which consist of options, have been excluded from the diluted net loss per common share calculations because they were anti-dilutive at March 31, 2014. Accordingly, diluted net loss per share is the same as basic net loss per share for the three months ended March 31, 2014.

At March 31, 2014 and 2013, respectively, 349,812 and 288,149 potential common stock shares are issuable upon the exercise of vested options. For the three months ended March 31, 2014, 708,045 shares related to options were excluded from the computation of diluted earnings per share as they were anti-dilutive due to the loss position. For the three months ended March 31, 2013, 682,141 shares related to options were excluded from the computation of diluted earnings per share as they were antidilutive due to their exercise price being in excess of the average close price for the three 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	
	March 31, 2014	March 31, 2013
Consolidated Net (loss)	$ (487,918)	$ (462,092)
Weighted average number of shares outstanding	20,587,523	10,883,280
Weighted average number of common and common equivalent shares	20,587,523	10,883,280
Basic and diluted (loss) per common share	$ (0.02)	$ (0.04)

6. INCOME TAXES

The Company is subject to taxation in the U.S., various state and foreign jurisdictions. We continue to record a full valuation allowance against our U.S. net deferred tax assets as it is not more likely than not that we will realize a benefit from these assets in a future period. In future periods, tax benefits and related deferred tax assets will be recognized when management concludes realization of such amounts is more likely than not.

A net benefit of $28,288 was recorded to the income tax provision for the three month period ending March 31, 2014 resulting in an effective tax rate of 5.5% for the period. The income tax benefit relates primarily to our foreign operations partially offset by domestic state minimum taxes as all of our other USA tax benefits are reduced by a full valuation allowance. Our total income tax expense and effective tax rate were $9,989 and 2.2%, respectively, for the same period in 2013, which relates to the income tax provision and includes state minimum taxes as our USA tax benefits are reduced by a full valuation allowance.

7. WORKING CAPITAL LINE OF CREDIT

During the period ended March 31, 2014, our wholly owned subsidiary, CUI, Inc., maintained a two year revolving Line of Credit (LOC) with Wells Fargo Bank in the principal amount of four million dollars ($4,000,000) with an expiration of October 1, 2015. The interest rate on any outstanding balance is 1.75% above either the daily one month LIBOR or the LIBOR in effect on the first day of the applicable fixed rate term (no balance owing at March 31, 2014). At March 31, 2014, the LOC is secured through a security agreement on CUI, Inc. net accounts receivable of $3,739,656, CUI, Inc. net general intangibles of $8,272,849, net inventory of $4,708,651 and fixed assets of CUI, Inc. of $1,186,609. CUI Global, Inc., the parent company is a payment guarantor of the LOC. Other terms included in this revolving line of credit for CUI Inc. limit capital expenditures by CUI Inc. to $1,000,000 in any fiscal year and disallows distributions or dividends from CUI Inc. This revolving LOC effectively satisfies in full and terminates the earlier LOC with Wells Fargo Bank.

At March 31, 2014 and 2013, the balance outstanding on the line of credit was $0. As of the date of this filing, the Company is compliant with all covenants on the line of credit with Wells Fargo Capital Finance.

8. ACCUMULATED OTHER COMPREHENSIVE GAIN (LOSS)

The following table summarizes the changes in accumulated other comprehensive gain (loss) by component:

	For the Three Months Ended March 31,	
	2014	2013
Accumulated other comprehensive gain (loss), beginning of period	$ 1,837,961	$ (24,336)
Foreign currency translation adjustment	246,905	(20,770)
Accumulated other comprehensive gain (loss), end of period	$ 2,084,866	$ (45,106)

9. CAPITAL LEASES

The following is an analysis of the leased property under capital leases by major classes as of March 31, 2014:

Classes of Property	Asset Balance at March 31, 2014
Motor vehicles	$ 419,595
Equipment	23,650
Less: Accumulated depreciation	(187,442)
	$ 255,803

The following summarizes the current and long term portion of capital leases at March 31, 2014:

	Balance at March 31, 2014
Current leases payable	$ 78,741
Long term leases payable	102,532
	$ 181,273

10. NOTES PAYABLE

Notes payable is summarized as follows at March 31, 2014:

	March 31, 2014
(a) Promissory Note - bank	$ 3,662,015
(b) Acquisition Note Payable - related party	5,303,683
	$ 8,965,698

(a) On October 1, 2013, the funding of the purchase of our Tualatin, Oregon corporate offices from Barakel, LLC was completed. The purchase price for this asset was $5,050,000. The purchase was funded, in part, by a promissory note payable to Wells Fargo Bank in the amount of $3,693,750 plus interest at the rate of 2% above LIBOR, payable over ten years with a balloon payment due at maturity. It was secured by a deed of trust on the purchased property which was executed by CUI Properties, LLC and guaranteed by CUI Global, Inc. During the three months ended March 31, 2014, the Company made principal payments of $19,041 against the mortgage promissory note payable. At March 31, 2014, the balance owed on the mortgage promissory note payable was $3,662,015, of which $77,789 and $3,584,226 were in current and long term liabilities, respectively at March 31, 2014.

(b) In May 2013, the Company utilized funds from the equity sale to pay down $2,000,000 of principal owing on the note payable owed to International Electronic Devices, Inc. (formerly CUI, Inc.) associated with the acquisition of CUI, Inc. In conjunction with the 2013 principal payment, the promissory note terms were amended to extend the due date to May 15, 2020 and the interest rate was reduced to 5% per annum, with interest payable monthly and the principal due as a balloon payment at maturity. As of March 31, 2014, the Company is in compliance with all terms of this promissory note.

The following table details the maturity of the mortgage notes payable and acquisition note payable – related party for CUI Global, Inc. as of March 31, 2014:

	2014	2015	2016	2017	2018	Thereafter	Total
Note payable maturities:	$57,773	$80,746	$84,874	$89,218	$93,780	$8,559,307	$8,965,698

11. CONCENTRATIONS

During the first quarter of 2014, 49% of revenues were derived from two customers at 31% and 18%. During the first quarter of 2013, 48% of revenues were derived from one customer.

The Company’s major product lines in the first quarter of 2014 were power and electro-mechanical products and natural gas infrastructure and high-tech solutions. During the first quarter of 2013, the company’s major product lines were power and electro-mechanical products.

At March 31, 2014, of the gross trade accounts receivable from continuing operations totaling $10,859,765, 39% was due from two customers at 11% and 28%. At March 31, 2013, of the gross trade accounts receivable from continuing operations, 12% was due from a single customer.

Following the acquisition of Orbital Gas Systems, the Company also has revenue and trade accounts receivable concentrations in the United Kingdom of 36% and 63%, respectively for the quarter ended March 31, 2014.

12. OTHER EQUITY TRANSACTIONS

During January 2014, an employee exercised 500 options for common stock in a cashless transaction for which the employee received 200 common shares. The Company received $0 from this exercise.

During February 2014, a consultant received 9,124 restricted common shares with a fair value of $50,000 based on the contract date of payment for strategic consulting services regarding the testing and demonstration of the GasPT2 technology rendered since August 6, 2013 and to be rendered thru August 5, 2014 in accordance with the terms of the contract agreement.

During February and March 2014, an executive exercised 98,146 options for common stock in a cashless transaction for which the employee and a designated recipient received 23,408 common shares. The Company received $0 from this exercise.

During March 2014, a consultant received 18,283 restricted common shares with a fair value of $115,000 based on the contract date of payment for strategic investor marketing services to be rendered thru July 1, 2015 in accordance with the terms of the contract agreement.