

CUI Global, Inc.  
Form 10-Q  
May 07, 2013

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, 2013

Commission File Number 0-29923

**CUI Global, Inc.**

(Exact name of registrant as specified in its charter)

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

20050 SW 112th Avenue

Tualatin, Oregon 97062

(503) 612-2300.

(Address and Telephone Number of Principal Executive Offices)

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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 ☒ 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 ☒ 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 ☐  
Non-accelerated filer ☐ (Do not check  
Smaller reporting company ☒  
If a 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 ☒

As of May 6, 2013, there were 20,543,280 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,<br>2013<br>(unaudited) | December 31,<br>2012 |
|--------------------------------------------------------------------------------------|----------------------------------|----------------------|
| Assets:                                                                              |                                  |                      |
| Current Assets:                                                                      |                                  |                      |
| Cash and cash equivalents                                                            | \$2,518,175                      | \$3,039,840          |
| Trade accounts receivable, net of allowance of \$125,000 and \$130,000, respectively | 3,837,874                        | 4,965,926            |
| Inventories, net of allowance of \$220,000 and \$250,000, respectively               | 5,163,530                        | 4,843,905            |
| Prepaid expenses and other                                                           | 1,060,709                        | 378,885              |
| Total current assets                                                                 | 12,580,288                       | 13,228,556           |
| Property and equipment, net                                                          | 976,565                          | 1,016,219            |
| Other assets:                                                                        |                                  |                      |
| Investment - equity method                                                           | 260,347                          | 258,244              |
| Other Intangible assets, net                                                         | 8,550,997                        | 8,618,524            |
| Deposits and other                                                                   | 980                              | 11,360               |
| Notes receivable, net                                                                | 503,905                          | 501,422              |
| Debt offering costs, net                                                             | 24,445                           | 42,778               |
| Goodwill, net                                                                        | 13,046,358                       | 13,046,358           |
| Total other assets                                                                   | 22,387,032                       | 22,478,686           |
| Total assets                                                                         | \$35,943,885                     | \$36,723,461         |
| Liabilities and stockholders' equity:                                                |                                  |                      |
| Current liabilities:                                                                 |                                  |                      |
| Accounts payable                                                                     | \$2,259,871                      | \$2,496,881          |
| Line of credit                                                                       | -                                | 459,448              |
| Accrued expenses                                                                     | 1,356,929                        | 1,142,839            |
| Accrued compensation                                                                 | 161,377                          | 186,636              |
| Unearned revenue                                                                     | 494,665                          | 371,541              |
| Total current liabilities                                                            | 4,272,842                        | 4,657,345            |
| Long term notes payable, related party, net of current portion due                   | 7,303,683                        | 7,303,683            |
| Total long term liabilities                                                          | 7,303,683                        | 7,303,683            |
| Total liabilities                                                                    | 11,576,525                       | 11,961,028           |
| Commitments and contingencies                                                        |                                  |                      |

Stockholders' equity:

|                                                                                                                                                      |               |               |
|------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Preferred stock, par value \$0.001; 10,000,000 shares authorized                                                                                     | -             | -             |
| Common stock, par value \$0.001; 325,000,000 shares authorized; and 10,883,280 shares issued and outstanding at March 31, 2013 and December 31, 2012 | 10,883        | 10,883        |
| Additional paid-in capital                                                                                                                           | 101,035,497   | 100,947,708   |
| Accumulated deficit                                                                                                                                  | (76,633,914 ) | (76,171,822 ) |
| Accumulated other comprehensive (loss)                                                                                                               | (45,106 )     | (24,336 )     |
| Total stockholders' equity                                                                                                                           | 24,367,360    | 24,762,433    |
| Total liabilities and stockholders' equity                                                                                                           | \$35,943,885  | \$36,723,461  |

See accompanying notes to unaudited condensed consolidated financial statements

## Condensed Consolidated Statements of Operations

(unaudited)

|                                                                                     | For the three months ended March 31, |              |
|-------------------------------------------------------------------------------------|--------------------------------------|--------------|
|                                                                                     | 2013                                 | 2012         |
| Revenues:                                                                           |                                      |              |
| Product Sales                                                                       | \$ 10,052,246                        | \$ 8,463,806 |
| Revenue from freight                                                                | 7,114                                | 5,957        |
| Total revenue                                                                       | 10,059,360                           | 8,469,763    |
| Cost of revenues                                                                    | 6,047,605                            | 5,185,179    |
| Gross profit                                                                        | 4,011,755                            | 3,284,584    |
| Operating expenses                                                                  |                                      |              |
| Selling, general and administrative                                                 | 4,149,757                            | 4,020,178    |
| Research and development                                                            | 244,690                              | 178,189      |
| Bad debt                                                                            | (5,000)                              | (10,000)     |
| Total operating expenses                                                            | 4,389,447                            | 4,188,367    |
| (Loss) from operations                                                              | (377,692)                            | (903,783)    |
| Other income (expense)                                                              |                                      |              |
| Other income                                                                        | 61,238                               | 25,146       |
| Other expense                                                                       | (4,945)                              | (215)        |
| Earnings from equity investment                                                     | 2,103                                | 20,577       |
| Amortization of debt offering costs                                                 | (18,333)                             | (18,333)     |
| Interest expense                                                                    | (114,474)                            | (187,198)    |
| Total other income (expense), net                                                   | (74,411)                             | (160,023)    |
| (Loss) before taxes                                                                 | (452,103)                            | (1,063,806)  |
| Provision for taxes                                                                 | 9,989                                | 7,956        |
| Consolidated Net (loss)                                                             | (462,092)                            | (1,071,762)  |
| Basic and diluted (loss) per common share                                           | \$ (0.04)                            | \$ (0.13)    |
| Basic and diluted weighted average common and common equivalents shares outstanding | 10,883,280                           | 8,439,629    |

See accompanying notes to unaudited condensed consolidated financial statements

CUI Global, Inc.

Condensed Consolidated Statements of Comprehensive Gain and Loss

(unaudited)

|                                         | For the three months ended March 31, |                 |
|-----------------------------------------|--------------------------------------|-----------------|
|                                         | 2013                                 | 2012            |
| Net (loss)                              | \$ (462,092 )                        | \$ (1,071,762 ) |
| Other comprehensive (loss)              |                                      |                 |
| Foreign currency translation adjustment | \$ (20,770 )                         | \$ (26,373 )    |
| Comprehensive (loss)                    | \$ (482,862 )                        | \$ (1,098,135 ) |

See accompanying notes to unaudited condensed consolidated financial statements

CUI Global, Inc.

## Condensed Consolidated Statements of Cash Flows

(unaudited)

|                                                                                                  | For the three months ended March 31, |                    |
|--------------------------------------------------------------------------------------------------|--------------------------------------|--------------------|
|                                                                                                  | 2013                                 | 2012               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                     |                                      |                    |
| Net (loss)                                                                                       | \$ (462,092                          | ) \$ (1,071,762    |
| Adjustments to reconcile net (loss) to net cash provided by operating activities:                |                                      |                    |
| Stock, options and notes issued for compensation and services                                    | 87,789                               | 367,884            |
| Non-cash interest expense, including amortization of debt offering costs                         | 18,333                               | 18,333             |
| Earnings from Equity Investment                                                                  | (2,103                               | ) (20,577          |
| Bad debt expense                                                                                 | (5,000                               | ) (10,000          |
| Amortization of technology rights                                                                | 6,625                                | 6,628              |
| Amortization of patent costs                                                                     | 166                                  | 166                |
| Amortization of website development                                                              | 5,966                                | 1,724              |
| Amortization of intangible, trademark and trade name V-Infinity                                  | 54,770                               | 0                  |
| Inventory reserve                                                                                | (30,000                              | ) (15,000          |
| Depreciation                                                                                     | 143,609                              | 132,521            |
| (Increase) decrease in assets:                                                                   |                                      |                    |
| Trade accounts receivable                                                                        | 1,133,052                            | 246,641            |
| Inventory                                                                                        | (289,625                             | ) 56,880           |
| Prepaid expenses and other current assets                                                        | (684,307                             | ) 174,073          |
| Deposits and other assets                                                                        | 10,380                               | 44,212             |
| Increase (decrease) in liabilities:                                                              |                                      |                    |
| Accounts payable                                                                                 | (237,010                             | ) 321,190          |
| Accrued expenses                                                                                 | 214,090                              | (164,329           |
| Accrued compensation                                                                             | (25,259                              | ) 83,070           |
| Unearned revenue                                                                                 | 123,124                              | 193,009            |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                                 | <b>62,508</b>                        | <b>364,663</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                     |                                      |                    |
| Proceeds from Notes receivable                                                                   | -                                    | 15,831             |
| Purchase of property and equipment                                                               | (103,955                             | ) (148,037         |
| <b>NET CASH (USED IN) INVESTING ACTIVITIES</b>                                                   | <b>(103,955</b>                      | <b>) (132,206</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                     |                                      |                    |
| Proceeds from (payments to) demand notes payable, net of debt offering costs                     | (459,448                             | ) (1,528,900       |
| Payments on notes and loans payable                                                              | -                                    | (4,000,000         |
| Payments on notes and loans payable, related party                                               | -                                    | (3,000,000         |
| Payments on convertible notes payable, related party                                             | -                                    | (35,000            |
| Proceeds from sales of common stock, and exercise of warrants and options, net of offering costs | -                                    | 12,605,515         |
| <b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>                                       | <b>(459,448</b>                      | <b>) 4,041,615</b> |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>                                                   | <b>(20,770</b>                       | <b>) (26,373</b>   |
| Cash and cash equivalents at beginning of year                                                   | 3,039,840                            | 176,775            |

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|                                                      |             |                |
|------------------------------------------------------|-------------|----------------|
| Cash and cash equivalents at end of period           | 2,518,175   | 4,424,474      |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | \$ (521,665 | ) \$ 4,247,699 |

(continued)

CUI Global, Inc.

Condensed Consolidated Statements of Cash Flows (continued)

(unaudited)

|                                                                                                                           | For the three months ended March 31, |            |
|---------------------------------------------------------------------------------------------------------------------------|--------------------------------------|------------|
|                                                                                                                           | 2013                                 | 2012       |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:                                                                         |                                      |            |
| Income taxes paid                                                                                                         | \$ 34,585                            | \$ 75,051  |
| Interest paid                                                                                                             | \$ 114,432                           | \$ 207,270 |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:                                                   |                                      |            |
| Amortization of debt offering costs                                                                                       | \$ 18,333                            | \$ 18,333  |
| Common stock issued and issuable for consulting services and compensation and accrued liabilities payable in common stock | \$ -                                 | \$ 343,050 |

See accompanying notes to unaudited condensed consolidated financial statements

CUI Global, Inc.

Notes to the Condensed Consolidated Financial Statements

(unaudited)

## **1. BASIS OF PRESENTATION**

The accompanying 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 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, 2012.

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. 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.

CUI defines its product into three categories: components including connectors, speakers, buzzers and control solutions including encoders and sensors; power solutions which includes Novum and Solus; and test and measurement which includes the Vergence GasPT2. 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.

## **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 2013 and 2012 include estimates used to review the Company's long-lived assets for impairment, allowances for uncollectible accounts, inventory valuation, valuations of non-cash capital stock issuances, valuation for unearned revenue, 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 subsidiaries CUI, Inc. and CUI Japan, 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 March 31, 2013.

### 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 or in interest bearing accounts which may or may not be covered by FDIC insurance and places its temporary cash investments with high credit quality financial institutions. At March 31, 2013, the Company had \$2,195,925 of cash balances at financial institutions which were in excess of the FDIC insured limits. The Company maintained cash balances of \$72,250 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 an effort to further reduce credit risk exposure.

### Inventory

Inventory consists of finished and un-finished products. At March 31, 2013, the Company had finished goods of \$4,279,950, raw materials of \$319,076, work in process of \$784,504 and an allowance of \$220,000.

### 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. 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 quoted prices available in active markets for the identical assets or liabilities if available.  
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
2. 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.

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 are completed by third party experts.

Intangible assets with a determinable finite life, other than goodwill, including technology rights and patents are amortized over an estimated useful life of 15 years or their estimated useful life if less than 15 years. Technology rights are amortized over 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 are reviewed for impairment annually during the second quarter and whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recoverable. Through this review of all known events and circumstances, management concluded that an impairment charge of \$278,428 was necessary regarding the Intangible, trademark and trade name V-Infinity during 2012.

#### Goodwill Assets

As detailed in ASC 350 Intangibles-Goodwill and Other subsection 20, the Company tests for goodwill impairment in the second quarter of each year and whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable.

As detailed in ASC 350-20-35-3A, in performing its testing for goodwill impairment, management has completed a qualitative analysis to determine whether it was more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. To complete this review, management followed the steps in ASC 350-20-35-3C to evaluate the fair values of goodwill and considered all known events and circumstances that might trigger an impairment of goodwill. The analysis completed in both 2013 and 2012, determined that there was no impairment necessary to goodwill assets. Through the reviews completed in 2013 and 2012, management concluded that there were no events or circumstances that triggered an impairment (and there was no expectation that a reporting unit or a significant portion of a reporting unit would be sold or otherwise disposed of in the following year), therefore, no further analysis was necessary to prepare for goodwill impairment beyond the steps in 350-20-35-3C in accordance with ASU 2011-08.

CUI Global has adopted ASU 2011-08, which simplifies how an entity is required to test goodwill for impairment. The ASU allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this ASU, CUI is not 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. We adopted ASU 2011-08 during the year ended December 31, 2012. The adoption of ASU 2011-08 did not have an impact on our consolidated financial statements.

At March 31, 2013, the gross carrying amount and accumulated amortization of intangible assets, other than goodwill, are as follows:

|                             | Gross<br>Assets | Accumulated<br>Amortization | Net         |
|-----------------------------|-----------------|-----------------------------|-------------|
| Trademarks and trade name   | \$5,988,256     | \$ (164,310 )               | \$5,823,946 |
| Customer lists              | 1,857,000       | -                           | 1,857,000   |
| Technology rights           | 303,664         | (84,404 )                   | 219,260     |
| Technology - patent pending | 551,559         | -                           | 551,559     |
| Other intangible assets     | 154,470         | (55,238 )                   | 99,232      |
| Total                       | \$8,854,949     | \$ (303,952 )               | \$8,550,997 |

Amortization expenses from operations for the three months ended March 31, 2013 and 2012 amounted to approximately \$67,527 and \$8,518, respectively.

As of March 31, 2013 and 2012, the carrying amount of goodwill was \$13,046,358. The estimated fair value of goodwill could change if the Company is unable to achieve operating results at the levels that have been forecasted, the market valuation of our business decreases based on transactions involving similar companies, or there is a permanent, negative change in the market demand for the services offered by the Company. These changes could result in an impairment of the existing goodwill balance that could require a material non-cash charge to our results of operations.

#### *Trademarks and Trade Name*

As of March 31, 2013, \$4,892,856 of costs related to CUI and \$1,095,400 of costs related to the V-Infinity trademarks and trade names have been capitalized. The intangible, trademark and trade name CUI was determined to have an indefinite life and is reviewed regularly for impairment by management, which includes an annual test for impairment. During 2012, management determined that an impairment of \$278,428 related to the intangible, trademark and trade name V-Infinity was necessary. As a result of this evaluation and the impairment, management determined the trademark and trade name V-Infinity no longer has an indefinite life, and will instead be amortized over the estimated remaining useful life of 5 years.

#### *Customer Lists*

As of March 31, 2013, CUI Global has \$1,857,000 of capitalized costs related to intangible, customer list. Intangible, customer list is reviewed regularly for impairment by management. The customer lists were determined to have an indefinite life and are not amortized but tested annually for impairment. Among other factors, this review includes consideration of the revenues and cash flows associated with customers that existed at the time of the acquisition of the intangible, customer list. This review determined that the total net revenues and related cash flows associated with customers that existed at the time of the acquisition of the intangible, customer list have increased as compared with their pre-acquisition comparable revenues and maintains a back log of customer orders indicating that this will continue based on historical Company experience.

*Technology Rights*

As of March 31, 2013, CUI Global has \$303,664 of capitalized costs related to technology rights. Technology rights are amortized over a twenty year life or the term of the rights agreement and are reviewed for impairment annually.

*Technology – Patent Pending*

As of March 31, 2013, CUI Global has \$551,559 of capitalized costs related to intangible, patent pending technology. Intangible, patent pending technology is reviewed regularly for impairment by management.

*Debt Offering Costs*

As of March 31, 2013, \$220,000 of debt offering costs related to payments issued in efforts to secure debt financing for the Company have been capitalized. The debt offering costs are amortized over the life of the applicable loan. The net balance of debt offering costs as of March 31, 2013 is \$24,445.

Investment in Affiliate

Through the acquisition of CUI, Inc. the Company obtained 352,589 common shares representing an 11.54% interest at March 31, 2013 and 2012, 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 March 31, 2013 is as follows:

|                                            |             |
|--------------------------------------------|-------------|
| Current assets                             | \$6,521,869 |
| Non-current assets                         | 520,606     |
| Total Assets                               | \$7,042,475 |
| Current liabilities                        | \$3,269,096 |
| Non-current liabilities                    | 1,181,089   |
| Stockholders' equity                       | 2,592,290   |
| Total Liabilities and Stockholders' Equity | \$7,042,475 |
| Revenues                                   | \$2,568,113 |
| Operating income                           | 17,954      |
| Net profit                                 | 18,222      |
| Other comprehensive profit (loss):         |             |
| Foreign currency translation adjustment    | -           |
| Comprehensive net profit                   | 18,222      |
| Company share of Net Profit at 11.54%      | 2,103       |
| Equity investment in affiliate             | \$260,347   |

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 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 condensed 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 condensed 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 revenue 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 are recognized at the time the product is shipped to the customer. VSOE sales also exist for CUI Japan 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 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 three months ended March 31, 2013 and 2012, the Company operates in one operating segment based on the activities of the company in accordance with the 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. The Company does not disaggregate profit and loss information on a segment basis for internal management reporting purposes to our chief operating decision maker group which consists of our Chief Executive Officer, Chief Financial Officer and Chief Operating Officer, and therefore such information is not presented.

The 10-Q filing for the three months ended March 31, 2012 presented five operating segments based on the products offered, which included: External Power, Internal Power, Industrial Controls, Discontinued Operations and Other. Management determined that presenting these as a consolidated segment is the best presentation as the business activities of CUI Global are not organized on the basis of differences related to products, services or geography. The Company's chief operating decision maker looks at the operations as a whole when making operating decisions and allocating resources.

### Reclassification

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

### Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The amendments in this update require an entity to provide information about the amounts reclassified from accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the income statement or in the notes, significant amounts reclassified from accumulated other comprehensive income by the net income line item. The adoption of this amended guidance on January 1, 2013 did not have a material impact on the Company's consolidated results of operations, financial position and cash flows.

**3. (LOSS) PER COMMON SHARE**

In accordance with FASB Accounting Standards Codification No. 260 ("FASB ASC 260"), "Earnings Per Share", basic net loss per share is computed by dividing the net loss available to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing net 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, 2013 and 2012, which consist of options, warrants, convertible notes and convertible preferred stock, have been excluded from the diluted net loss per common share calculations because they were anti-dilutive. Accordingly, diluted net loss per share is the same as basic net loss per share for the three months ended March 31, 2013 and 2012.

At March 31, 2013 and 2012, respectively, 288,149 and 273,587 potential common stock shares are issuable upon the exercise of vested options and conversion of debt to common stock. 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 anti-dilutive 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<br>ended<br>March 31, 2013 | Three months<br>ended<br>March 31, 2012 |
|----------------------------------------------------------------|-----------------------------------------|-----------------------------------------|
| Consolidated Net (loss)                                        | \$ (462,092 )                           | \$ (1,071,762 )                         |
| Weighted average number of shares outstanding                  | 10,883,280                              | 8,439,629                               |
| Weighted average number of common and common equivalent shares | 10,883,280                              | 8,439,629                               |
| Basic and diluted (loss) per common share                      | \$ (0.04 )                              | \$ (0.13 )                              |

**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 for the three months ended March 31, 2013 and 2012 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 March 31, 2013, 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 3.25% (3.5336% at March 31, 2013). Effective April 3, 2012, the Wells Fargo LOC expiration was extended to July 31, 2015. As of the date of this filing, the Company is compliant with all covenants on the line of credit with Wells Fargo Capital Finance. At March 31, 2013, there was no balance outstanding on the line of credit.

## **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 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, 2012, there were 419,189 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 three months ended March 31, 2013, the Company granted no stock options.

The following information is presented for the stock option activity for the three months ended March 31, 2013:

|                                           | Number of<br>Options | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contract Life |
|-------------------------------------------|----------------------|---------------------------------------|---------------------------------------------------|
| Outstanding at December 31, 2012          | 682,141              | \$ 6.47                               | 7.69 Years                                        |
| Exercised                                 | -                    | \$ -                                  |                                                   |
| Expired                                   | -                    | \$ -                                  |                                                   |
| Forfeited                                 | -                    | \$ -                                  |                                                   |
| Granted                                   | -                    | \$ -                                  |                                                   |
| Outstanding at March 31, 2013             | 682,141              | \$ 6.47                               | 8.28 Years                                        |
| Outstanding exercisable at March 31, 2013 | 288,149              | \$ 7.24                               | 6.94 Years                                        |

There was no warrant activity and no warrants outstanding during the three months ended March 31, 2013.

## **7. NOTES PAYABLE**

Notes payable is summarized as follows at March 31, 2013 and 2012:

|           |      |
|-----------|------|
| March 31, |      |
| 2013      | 2012 |

(a) Acquisition Note Payable \$7,303,683 \$7,303,683

The Company utilized a \$14,000,000 promissory note to International Electronic Devices, Inc. (formerly CUI, Inc.) in conjunction with the acquisition of CUI, Inc. The note was originally due May 15, 2011. In September 2010, (a) the Company negotiated an amendment to this note which extended the maturity date to May 15, 2018. Interest accrues at 6% per annum and is payable monthly with the principal due as a balloon payment at the term date. At December 31, 2012, the balance of this note was \$7,303,683. As of March 31, 2013, the balance on this note is \$7,303,683 and is included in Long Term Notes Payable, Related Party.

The following table details the maturity of the notes payable for CUI Global, Inc. as of March 31, 2013:

|                           | 2013 | 2014 | 2015 | 2016 | 2017 | 2018        | Thereafter | Total       |
|---------------------------|------|------|------|------|------|-------------|------------|-------------|
| Notes Payable Maturities: | \$ - | \$ - | \$ - | \$ - | \$ - | \$7,303,683 | \$ -       | \$7,303,683 |

## **8. CONCENTRATIONS**

During the three months ended March 31, 2013, 47.61% of revenues were derived from one customer. During the three months ended March 31, 2012, 47.71% of revenues were derived from one customer.

At March 31, 2013, a single customer balance accounted for 11.69% of the total trade receivables balance. At March 31, 2012, a single customer balance accounted for 22.14% of the trade receivables balance.

## **9. SUBSEQUENT EVENTS**

During April 2013, in conjunction with an SEC Form S-1 registration statement that became effective by the SEC on April 11, 2013, 8,400,000 shares of common stock were issued. The Company received \$42,000,000 before related costs from this transaction.

Also during April 2013, 1,260,000 additional shares were issued that are included in the S-1 registration statement pursuant to an over-allotment provision contained in our underwriting agreement. The Company received \$6,300,000 before related costs from this transaction.

On April 18, 2013, the Company completed the strategic acquisition of Orbital Gas Systems Limited for 17 million Great British Pounds, approximately \$26.2 million. The acquisition is effective as of April 1, 2013.

In May 2013, the Company paid to International Electronic Devices, Inc. \$2,000,000 in principal, thereby reducing the balance of the note payable to \$5,303,683. In conjunction with the repayment of \$2,000,000 of principal towards the note payable balance, the maturity date of the note was extended to May 15, 2020 and the interest was reduced to 5% per annum, payable monthly, with the principal due as a balloon payment at the maturity date.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### **General**

Management's discussion and analysis contains various "forward looking statements." Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate," or "continue" or use of negative or other variations or comparable terminology.

CUI Global cautions that these forward-looking statements are further qualified by important factors that could cause actual results to differ materially, are necessarily speculative, and there are certain risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward-looking statements.

## Overview

CUI Global, Inc. is a Colorado corporation organized on April 21, 1998. The Company's principal place of business is located at 20050 SW 112th Avenue, Tualatin, Oregon 97062, phone (503) 612-2300. 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.

During the three months ended March 31, 2013, CUI Global had a loss from operations of \$377,692. During the three months ended March 31, 2013, CUI Global had a consolidated net loss of \$462,092. The net loss is primarily the result of the increase in sales, general and administrative expenses incurred during the first three months of the year which includes, among other things, the sales, marketing, engineering and support functions related to CUI Inc., CUI Japan, and the Novum and Solus product families as well as the continued sales efforts and related costs for the Vergence GasPT2 product line.

CUI, Inc. - Subsidiary

CUI, Inc., is a Tualatin, Oregon based provider of electronic components including power supplies, transformers, converters, connectors and industrial controls for Original Equipment Manufacturers (OEMs). Through CUI, Inc., the Company holds 352,589 common shares (representing an 11.54% interest) 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, CUI Global is able 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, buzzers and control solutions including encoders and sensors; power solutions which include Novum and Solus; and test and measurement which include the Vergence GasPT2. 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.

**Power Supply Units**

Our current power line, consists of external and embedded ac-dc power supplies, dc-dc converters and basic digital point of load modules. This dynamic, broadly applicable product line accounts for a significant portion of our current revenue and recent revenue growth.

**Digital Power Patent License Agreement with Power-One, Inc.**

The company entered into a non-exclusive Field of Use Agreement with Power-One, Inc. to license Power-One's Digital Power Technology patents. The license provides access to Power-One's portfolio of Digital Power Technology patents for incorporation into the company's new line of digital point of load power modules. The company, through its power division, also manufactures a wide range of embedded and external power electronics devices for OEM manufacturers.

**Novum<sup>®</sup> Advanced Power**

We have developed the first fully featured digital point of load dc-dc converter in the power market under our Novum Advanced Power line of products. This product is a next generation product targeted at the intermediate bus power architecture that is prolifically used in the telecom and networking communications market. In September of 2010 we released full production versions of two point of load modules. We were finalists for the prestigious Golden Mousetrap Award and EDN Innovation Award for these parts in 2010. With the shift towards smarter, smaller, and more energy efficient power requirements, our engineers are seeking innovative solutions that allow them to keep pace with lower core voltages, faster transient response needs and increasing thermal issues that they face in their designs. Our recently introduced Novum NDM2 modules, with a full suite of digital features, specifically address these growing system complexities through intelligent power management. The NDM2 series is the first to be designed by the company as part of the Ericsson cooperation announced in July 2011. The agreement formalizes a plan between the two companies to offer a multi-source digital POL platform based on the Ericsson BMR46X series, with future plans to co-develop modules outside the existing range of 10~50A. We have also developed a middle ground product to ease the customer base into the benefits of digital in power. We developed a “smart module” that allows for the benefits of digital in the design cycle but when installed functions like a highly optimized analog unit.

*Solus<sup>®</sup> Topology License with California Power Research*

The company entered into an exclusive Field of Use Agreement with California Power Research to license their BPS-5 topology, now marketed as the Solus Topology. This topology provides industry leading efficiencies and densities in power design. The topology is broadly applicable to both DC-DC and AC-DC products. This will allow for the company to have a long roadmap of industry leading products to service its broad customer base. In addition, its first target is the Intermediate Bus Architecture (IBA) where the Digital POL modules are used.

*Solus<sup>®</sup> Power Topology*

Through the Solus Topology, we have a proprietary patented power topology for designing unique power circuits. This topology allows for higher efficiencies, densities, response time, and price competitiveness that is otherwise unavailable. Our initial product designed using this topology is in the quarter brick dc-dc converter market. Solus is an entirely new topology, rich in features that accelerate the performance trend trajectories for the big-four power conversion needs in the telecom and server markets: greater efficiency; higher power density; reduced EMI (electro-magnetic interference); and faster transient response four times as fast. We have introduced the NQB2060 Novum<sup>®</sup> one quarter brick bus converter as a prime example of the benchmark 720 watts output power performance using the Solus Topology. Since the Solus Topology maintains its effectiveness independent of the control method used, it can operate with analog voltage mode control, analog current mode control, and various digital control profiles. We believe that unique feature opens the door for the company to implement this topology in a wide variety of power supply product platforms. We also believe that this topology will allow for at least a decade of new product designs and introductions.

As the large scale networking and telecommunications companies convert to digital power, our early entry into the market, our unique Solus Topology, and our relationship with Ericsson should enhance our ability to penetrate this (according to the Darnell Group) multi-billion dollar market.

**Test and Measurement**

*Vergence<sup>®</sup> GasPT2*

Through an exclusive licensing contract with GL Industrial Services UK, Ltd. (GL), formerly British-based Advantica, Ltd., CUI Global owns exclusive rights to manufacture, sell and distribute a Gas Quality Inferential Measurement Device (GasPT2) designed by GL on a worldwide basis, now marketed as the Vergence GasPT2.

The Vergence natural gas inferential metering device, the GasPT2, is a low cost solution to measuring natural gas quality. It can be connected to a natural gas system to provide a fast, accurate, close to real time measurement of the physical properties, such as thermal conductivity, speed of sound and carbon dioxide content. From these measurements it infers an effective gas mixture comprising four components: methane, propane, nitrogen, and measured carbon dioxide and then uses ISO6976 to calculate the gas quality characteristics of calorific value (CV),

Wobbe index (WI), relative density (RD), and compression factor (Z). An ISO, International Organization for Standardization, is a documented agreement containing technical specifications or other precise criteria to be used consistently as rules, guidelines or definitions of characteristics to ensure that materials, products, processes and services are fit for their purpose.

This new and innovative technology has been certified for use in fiscal monitoring by Ofgem in the United Kingdom, the Polish Oil & Gas Company Department of Testing and Calibration in Warsaw, NOVA Chemical/TransCanada, and SNAM RETE in Italy. At present, there is no equivalent product competition. There are instruments like gas chromatographs ("GC"), but they are slow, complicated to use and as much as five times the price of the GasPT2.

By way of example, in the case of SNAM RETE, the Italian gas transmission company, there are 13 natural gas injection points for the SNAM RETE system. Those injection points will continue to use GC's for monitoring. On the other hand, there are 1,500 customer access points, servicing 7,500 customers. Those would include city gates, large industrial users, power generation plants and others. All of those customer access ports would be applicable for the Vergence Technology. In the case of ENAGAS in Spain that ratio is 6 injection points and over 300 access points.

In addition, there are currently 50,000 gas-fired turbines in operation worldwide. Each of those turbines is subject to variances in natural gas quality. Depending on the quality of the gas, those very expensive machines can be tuned to run more efficiently and therefore longer with much cleaner emissions. Currently, because of the delay in information from the GC's, such tuning cannot be effectively accomplished. Operators attempt to deal with the delay by placing the monitoring station miles away from the turbine or creating large holding tanks to maintain the gas until an analysis can be completed. The use of the Vergence Technology, will enable those operators to place the GasPT2 units right next to the turbines and by interfacing them with the machine's process control software, the tuning can be accomplished on almost a real-time basis; thus, allowing the turbines to run longer, more efficiently and cleaner. In October/November 2012, the GasPT2 device successfully passed first-phase testing by GE-ENERGY at its Turbine Test Facility in Houston, Texas.

In 2011, the Company reached agreements with several European and United States companies to place beta test units for both laboratory and infield testing. These companies included SNAM RETE in Italy; National Grid in the United Kingdom; and GASUNIE in The Netherlands, among others. In early 2012, the company began the delivery of beta units to North American companies for their own beta test programs.

In addition, we signed an exclusive 5-year distribution agreement for the United Kingdom with Orbital Gas Systems, Ltd., the largest specialty gas engineering company in England. In conjunction with Orbital, we have introduced the combined Vergence GasPT2 unit and Vergence V-Probe to National Grid the largest gas transmission/distribution company in the UK. In January 2012 we entered into a second five (5) year, exclusive distribution agreement for our Vergence technology with an Italian company, SOCRATE s.p.a. for sales, marketing, distribution and service of our Vergence GasPT2 gas metering device for Italy and North Africa, including Libya and Tunisia. The agreement calls for sales of as many as 2,000 to 3,000 units and is valued from \$40,000,000 to \$60,000,000 over the five-year term.

We have entered into non-exclusive distribution agreements with two North American companies, Energy Measurement Consulting (EMC) and MGlobal. For its part, in December 2012, EMC issued a purchase order for the scheduled delivery of 150 units in FY 2013.



The Company has also reached an agreement with BWG/Blue Flame, a company based in Dubai for exclusive representation in the Middle East, including the UAE, Qatar, Saudi Arabia, and more. BWG/Blue Flame are also in negotiations with several large Middle Eastern organizations to place the device in the Gulf Region; along with representatives from Thailand, Romania, Turkey, and India for placement of the device.

## **Components**

### **AMT<sup>®</sup> Encoder**

The company has an exclusive agreement to develop, sell and distribute the AMT encoder worldwide. The AMT series modular encoder is designed with proprietary, capacitive, code-generating technology as opposed to optical or magnetic encoding. This unique device allows breakthroughs in selectable resolution, shaft-adaptation and convenient mounting solutions to bring ease of installation, reduction in SKU's and economies of scale in purchasing. The AMT amounts to almost 2000 different encoders in one package. The company is selling and distributing the AMT through various customers. Moreover, the product is being marketed by multiple DC motor manufacturers. The AMT has been awarded several design wins from Motion Control OEM's producing a wide range of products from cash machines to robotics.

### **ISO 9001:2008 Certification**

CUI, Inc. is certified to the ISO 9001:2008 Quality Management Systems standards and guidelines. CUI is registered as conforming to the requirements of standard: ISO 9001:2008, The Quality Management System is applicable to Design, Development and Distribution of electro-mechanical components for OEM manufacturing. ISO 9001 is accepted worldwide as the inclusive international standard that defines quality.

The certification of compliance with ISO 9001:2008 recognizes that our policies, practices and procedures ensure consistent quality in the design services, technology and products we provide our customers.

### **CUI Japan and the discontinued operations of Comex Electronics –Subsidiaries**

In July 2009, CUI Global acquired, as a wholly owned subsidiary, Comex Instruments, Ltd., now known as CUI Japan and 49% of Comex Electronics Ltd. Both companies are Japanese based providers of electronic components. Effective July 1, 2011, CUI Global entered into an agreement to convey its 49% ownership interest in Comex Electronics to the owners of the remaining 51% who are the original founders and were the original owners of Comex Instruments, for \$617,975 in the form of a five year note receivable bearing interest at 4% per annum. The operations of CUI Japan are not affected by this divestment. CUI Global continues to maintain its 100% ownership of CUI Japan.

## **Intellectual Property**

The Company relies on various intellectual property laws and contractual restrictions to protect its proprietary rights in products, logos and services. These include confidentiality, invention assignment and nondisclosure agreements with employees, contractors, suppliers and strategic partners. The confidentiality and nondisclosure agreements with employees, contractors and suppliers are in perpetuity or for a sufficient length of time so as to not threaten exposure of proprietary information.

CUI Global continues to file and protect its intellectual property rights, trademarks and products through filings with the US Patent and Trademark Office and, as applicable, internationally.

## **Liquidity and Capital Resources**

### General

Cash and cash equivalents at March 31, 2013 are \$2,518,175. Operations and investments in patents and equipment have been funded through cash on hand, cash from operations, proceeds from equity financings and borrowings from financial institutions during the three month period.

### Cash provided by operations

Operating requirements generated positive cash flow from operations of \$62,508 for the three months ended March 31, 2013, versus positive cash flow from operations of \$364,663 for the same period last year. The change in cash provided by operations is primarily the result of the decreased net loss incurred during the first three months of 2013 associated with the increase in revenues and related gross profits, offset by the continued expenses to reach new customers, promote new product lines including Novum, Solus and Vergence, increased advertising costs for company products, and overall growth in expenses of the business in relation to the growth in revenues. Additional factors that impacted the cash provided by operations include a decrease in trade accounts receivable, an increase in inventory, a increase in prepaid expenses and other current assets largely associated with prepaid license fees for future sales of the Vergence GasPT2 products and prepayments for items related to the Orbital Gas Systems Limited acquisition and equity raise related costs, decrease in accounts payable, increased accrued expenses due largely to the increase in inventory in transit, and an increase in unearned revenue primarily associated with customer prepayments and deferred revenues on certain sales through distribution.

During the first three months of 2013 and 2012 common stock and stock options have been used as a form of payment to certain consultants, note holders, employees and directors. For the first three months of 2013 and 2012, a total of \$87,789 and \$367,884, respectively, was recorded for compensation and services expense including amortization of deferred compensation related to equity given, or to be given, to employees, directors and consultants for services provided.

As the Company focuses on technology development and product line additions during 2013, it will continue to fund research and development together with related sales and marketing efforts for its various product offerings with cash on hand and cash flows from continuing operations.

### Capital Expenditures and Investments

During the first three months of 2013 and 2012, there was \$103,955 and \$148,037 invested in property and equipment, including computers and related hardware and software, engineering lab equipment, tooling for manufacturing, product certifications, furniture, and other fixed assets, respectively.

It is expected that investment in patent costs will take place during 2013 as patents are pursued in order to protect the rights to use its product developments.

Financing activities

During the first three months of 2013, the Company made payments of \$459,448 against the line of credit. During the first three months of 2012, the Company received proceeds of \$12,605,515 from the sales of common stock and exercise of warrants, \$1,528,900 of payments were made against the line of credit, \$4,000,000 of payments were made against notes and loans payable, \$3,000,000 of payments were made against related party notes and loans payable, and \$35,000 of payments were made against convertible notes payable, related party. CUI Global may raise the capital needed to fund the further development and marketing of its products as well as payment of its debt obligations.

### Recap of liquidity and capital resources

During the first three months of 2013, the Company continued to improve its financial strength which included repayment of the balance outstanding at December 31, 2012 of \$459,448 on the working capital line of credit. As of March 31, 2013 the Company had an accumulated deficit of \$76,633,914.

The Company may seek to raise additional capital for the commercialization and further development of its product and technology offerings as well as to further reduce debt. The Company believes its operations and existing financing structure, including the proceeds from the equity offering completed in April 2013, will provide sufficient cash to meet its short-term working capital requirements for the next twelve months. As the Company continues to expand and develop its technology and product lines as well as retire debt, additional funding sources may be required. The Company will attempt to raise these funds through borrowing instruments or issuing additional equity.

At March 31, 2013, 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 3.25% (3.5336% at March 31, 2013). Effective April 3, 2012, the Wells Fargo LOC expiration was extended to July 31, 2015. As of the date of this filing, the Company is compliant with all covenants on the line of credit with Wells Fargo Capital Finance. At March 31, 2013, there was no balance outstanding on the line of credit.

The Company expects the revenues from CUI, Inc., CUI Japan and those from the recently acquired Orbital Gas Systems Ltd. to help cover operating and other expenses for the next twelve months of operations. If revenues and the funds raised in 2012 and in April 2013 through the sales of equity are not sufficient to cover all operating and other expenses, additional funding may be required. There is no assurance the Company will be able to raise such additional capital. The failure to raise capital or generate product sales in the expected time frame will have a material adverse effect on the Company.

## **Results of Operations**

### Revenue

During the three months ended March 31, 2013 and 2012, revenue was \$10,059,360 and \$8,469,763, respectively. The revenue for the three months ended March 31, 2013 is comprised of \$9,797,446 from CUI products, \$254,800 from CUI Japan products, and \$7,114 for freight. The revenue for the three months ended March 31, 2012 is comprised of \$8,202,047 from CUI products, \$261,759 from CUI Japan products, and \$5,957 for freight.

The increase in revenues during the three months ended March 31, 2013 is attributable to the increased back log of orders on hand at December 31, 2012 and an increase of \$2,255,498 in customer orders received during the first three months of 2013 as compared to the prior year period. These increases are associated with continued product introductions, continued sales and marketing programs, the addition of Future Electronics as a distributor of CUI products, and the strengthening within the electronic components industry.

The Company experienced a significant uptick in orders received during the three months and held a backlog of customer orders of approximately \$15.7 million as of March 31, 2013 as compared to a backlog of customer orders of approximately \$10.7 million as of March 31, 2012.

#### Cost of revenues

For the three months ended March 31, 2013 and 2012, the cost of revenue was \$6,047,605 and \$5,185,179, respectively.

The cost of revenues as a percentage of revenue for the three months ended March 31, 2013 decreased to 60.12% from 61.22% during the prior year comparative period. This percentage will vary based upon the product mix sold during the period and is also dependent upon the competitive markets in which the Company competes as well as foreign exchange rates.

#### Selling, General and Administrative Expenses

Selling, General and Administrative (SG&A) expenses include such items as wages, commissions, consulting, general office expenses, business promotion expenses and costs of being a public company, including legal and accounting fees, insurance and investor relations.

For the three months ended March 31, 2013 compared to the same period in 2012, SG&A expenses increased \$129,579. The overall increase is primarily associated with the ongoing activities to support CUI Inc. and CUI Japan operations, continued sales efforts and related costs for the Vergence GasPT2 products, and expenses incurred in relation to the equity offering completed in April 2013. As a percentage of total revenue, SG&A expenses decreased to 41.25% as compared to 47.47% during the first three months of 2012. Management expects the SG&A expenses as a percentage of revenues to continue to improve during the remainder of 2013 as the Company improves efficiencies and increases revenues.

#### Research and Development

The research and development costs are related to the development of technology and products. Research and development costs were \$244,690 and \$178,189, for the three months ended March 31, 2013 and 2012, respectively. The expense is associated with continued research and development of new and existing technologies including the Novum digital power modules, Solus advanced power topology, Vergence GasPT2, and other products.

#### Bad Debt

During the three month periods ended March 31, 2013 and 2012 the allowance for doubtful receivables was reduced \$5,000 and \$10,000, respectively.

#### Other Income

Other income for the three months ended March 31, 2013, consisted of \$45,650 of gain on foreign exchange, \$8,696 of interest income, \$6,000 of rental income, \$806 from the recovery of bad debts and \$86 of miscellaneous income. Other income for the three months ended March 31, 2012, consisted of \$16,599 of gain on foreign exchange, \$6,449 of interest income, \$2,000 of rental income and \$98 from the recovery of bad debts.

#### Investment Income

The Company recognized income of \$2,103 on equity investment in affiliate for the three months ended March 31, 2013. For the same period ended 2012, the Company recognized income of \$20,577 on equity investment in an affiliate.

#### Convertible debt and amortization of debt discount and debt offering costs

The Company recorded an expense of \$18,333 for the three months ended March 31, 2013, and \$18,333 for the same period in 2012, for the amortization of debt discount and debt offering costs. The capitalized debt offering costs for which this expense related during the three months ended March 31, 2013 and 2012 will be fully amortized during 2013.

### Interest Expense

The interest expense of \$114,474 and \$187,198 for the three months ended March 31, 2013 and 2012 respectively is for interest on the bank operating line of credit, bank loans, and secured and unsecured promissory notes. The decrease is primarily due to the reduction of debt in 2012 through principal payments.

### **Critical Accounting Policies**

Our financial statements and related public financial information are based on the application of accounting principles generally accepted in the United States ("GAAP"). GAAP requires the use of estimates; assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental information contained in our external disclosures including information regarding contingencies, risk and financial condition. We believe our use of estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

Our significant accounting policies are summarized in Note 2 of our financial statements. While all these significant accounting policies impact its financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates. Our management believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause effect on our results of operations, financial position or liquidity for the periods presented in this report.

### **Recent Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The amendments in this update require an entity to provide information about the amounts reclassified from accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the income statement or in the notes, significant amounts reclassified from accumulated other comprehensive income by the net income line item. The adoption of this amended guidance on January 1, 2013 did not have a material impact on the Company's consolidated results of operations, financial position and cash flows.

### **Off-Balance Sheet Arrangements**

None.

**Item 3. Quantitative and Qualitative Disclosure about Market Risk**

A smaller reporting company, as defined by Rule 229.10(f)(1), is not required to provide the information required by this Item.

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#### **Item 4. Controls and Procedures**

This report includes the certifications of our Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 under the Securities Exchange Act of 1934 (the "Exchange Act"). See Exhibits 31.1 and 31.2. This Item 4 includes information concerning the controls and control evaluations referred to in those certifications.

##### *Evaluation of Disclosure Controls and Procedures*

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. In connection with the preparation of this report, our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2013. Based on that evaluation, our management has concluded that our disclosure controls and procedures were effective as of March 31, 2013.

##### *Changes in Internal Control over Financial Reporting*

There was no change in our internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### **PART II – OTHER INFORMATION**

##### **Item 1. Legal Proceedings.**

The Company and its subsidiaries are not a party in any legal proceedings. No director, officer or affiliate of the Company, any owner of record or beneficially of more than five percent of any class of voting securities of the Company or any associate of any such director, officer, affiliate of the Company or security holder is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries.

##### **Item 1A: Risk Factors.**

A smaller reporting company is not required to provide the information required by this Item.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

**Common Stock Issued**

During the three months ended March 31, 2013, the Company issued no shares of common stock.

**Item 6. Exhibits**

The following exhibits are included as part of this Form 10-Q.

| Exhibit<br>No.     | Description                                                                                                 |
|--------------------|-------------------------------------------------------------------------------------------------------------|
| 2.1 <sup>(2)</sup> | Orbital Gas Systems Limited Share Purchase Agreement dated March 3, 2013.                                   |
| 3.1 <sup>(3)</sup> | Composite Articles of Incorporation of the Company, as currently in effect.                                 |
| 3.2 <sup>(1)</sup> | Bylaws of the Company.                                                                                      |
| 22.8               | Proxy Statement and Notice of 2012 Annual Shareholder Meeting filed with the Commission on August 23, 2012. |

- 31.1<sup>(4)</sup> Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 203 of the Sarbanes-Oxley Act of 2002.
- 31.2<sup>(4)</sup> Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 203 of the Sarbanes-Oxley Act of 2002.
- 32.1<sup>(4)</sup> Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2<sup>(4)</sup> Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101<sup>(4)</sup> XBRL related documents.

Footnotes to Exhibit Index:

- (1) Incorporated by reference to our Registration Statement on Form SB-2/A filed with the Commission on October 26, 2001.
- (2) Incorporated by reference to our Report on Form 8-K filed with the Commission on March 6, 2013.
- (3) Incorporation by reference to our Registration Statement on Form S-1 filed with the Commission on March 6, 2013.
- (4) Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Signed and submitted this 6th day of May 2013.

CUI Global, Inc.

By: /s/ William J. Clough

William J. Clough,

Chief Executive Officer/President

by: /s/ Daniel N. Ford

Daniel N. Ford,

Chief Financial Officer