

CUI Global, Inc.  
Form 10-K/A  
January 15, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES AND EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

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Commission File Number 0-29923

CUI Global, Inc.

(Exact name of registrant as specified in its charter)

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

20050 SW 112<sup>th</sup> Avenue

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Tualatin, Oregon 97062

(503) 612-2300

(Address and Telephone Number of Principal Executive Offices and Principal Place of Business)

William J. Clough, CEO/President

CUI Global, Inc.

20050 SW 112<sup>th</sup> Avenue

Tualatin, Oregon 97062

(503) 612-2300

(Name, Address and Telephone Number of Agent for Service)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange where registered
Common Stock par value \$0.001 per share	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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

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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 (§ 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 if a smaller reporting company)  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates, based on the closing price of our common stock on the last business day of the registrant's most recently completed fiscal second quarter (June 30, 2014), was approximately \$134,839,597. Shares of common stock beneficially held by each officer and director as well as 5% holders as of December 31, 2014 have been excluded from this computation because these persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purposes.

As of March 16, 2015, the registrant had 20,780,395 shares of common stock outstanding and no shares of Preferred Stock outstanding.

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Not Applicable

DOCUMENTS INCORPORATED BY REFERENCE

None.

## EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K of CUI Global, Inc., for the fiscal year ended December 31, 2014, as filed with the Commission on March 16, 2015 and amended to date (the "Form 10-K/A"), is being filed for the purpose of amending:

(i) Part II, Item 9B, Other Information, by adding the voting results for the Annual Meeting of Shareholders held on November 24, 2014.

(ii) Part III, Item 11, Executive Compensation, by adding to section *Compensation Discussion and Analysis* a subsection entitled *Voting Results on Executive Compensation (Say-on-Pay) Advisory Vote* and to discuss how we considered the results of the most recent shareholder advisory vote on executive compensation as required by section 14A of the Exchange Act (15 U.S.C. 78n-1) or §240.14a-20 in determining compensation policies and decisions that affected the registrant's executive compensation decisions and policies.

(iii) Part II Item 13, Certain Relationships and Related Transactions – to disclose the information required by Item 404(b) of Regulation S-K and to include the disclosure of a previously omitted related-party transaction.

(iv) to include the second paragraph of text on the signature page as well as the signatures of at least the majority of the board of directors as required by General Instruction D(2)(a) to Form 10-K. This amendment also includes currently dated certifications from each of our Chief Executive Officer and our Chief Financial Officer, as required by Rule 12b-15 of the Securities Exchange Act of 1934, as amended, for amendments to an Annual Report on Form 10-K.

(v) A typographical error is corrected on page F-7 at line item "Balance, December 31, 2011" in the Consolidated Statements of Changes in Stockholders' Equity, For the Years Ended December 31, 2014, 2013 and 2012.

Except as described above, no other changes have been made to the Original Filing. The Original Filing continues to speak as of the date of the Original Filing, and we have not updated the disclosures contained therein to reflect any events which occurred at a date subsequent to the filing of the Original Filing other than as expressly indicated in this Amendment No. 1.

This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current expectations, estimates and projections about our industry, management's beliefs and assumptions made by management. Words such as "anticipates," "expects," "intends,"

"plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict; therefore, actual results and outcomes may differ materially from what is expressed or forecasted in any such forward-looking statements.

Consequently, all of the forward-looking statements made in this Annual Report are qualified by these cautionary statements and there can be no assurance that the actual results anticipated by management will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business operations.

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## **PART I**

### **Item 1. Business**

#### **Corporate Overview and Our Products**

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.

#### **CUI, Inc. and CUI Japan - Subsidiaries**

CUI, Inc., is based in Tualatin, Oregon and CUI Japan is based in Tokyo, Japan. Both CUI, Inc. and CUI Japan are providers of electronic components including power supplies, transformers, converters, connectors and industrial controls for Original Equipment Manufacturers (OEMs). Since its inception in 1989, CUI has been delivering quality products, extensive application solutions and superior personal service. CUI's solid customer commitment and honest corporate message are a hallmark in the industry.

CUI and CUI Japan define their product offering into two categories: components including connectors, speakers, buzzers, test and measurement devices, and control solutions including encoders and sensors; and power solutions which includes among other power products, the Novum Digital Power Modules and the Solus Power Topology. These offerings provide a technology architecture that addresses power and related accessories to industries as broadly ranging as telecommunications, consumer electronics, medical and defense.

#### **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 multisource digital POL platform based on the Ericsson BMR46X series footprint, as well as plans for the co-development of 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.

During 2014, CUI, Ericsson Power Modules and Murata announced the formation of the Architects of Modern Power (AMP) consortium. The goal of the AMP alliance is to realize the most technically advanced, end-to-end solutions and provide a complete ecosystem of hardware, software and support. Beyond purely mechanical specifications, it is the standardization of monitoring, control and communications functions, and the creation of common configuration files for plug-and-play interoperability that will ensure compatibility between each firms' products.

*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.

## **Components**

### **AMT® 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.

### **Orbital Gas Systems, Ltd. - Subsidiary**

Effective April 1, 2013, CUI Global closed on a share purchase agreement to acquire 100% of the equity interest in Orbital Gas Systems Limited, a company organized under the laws of England and Wales ("Orbital"), from Orbital's sole shareholder.

Orbital is the largest natural gas systems integrator in the U.K. Orbital has operated successfully in the natural gas industry for over 25 years. In addition, Orbital is a leading provider of natural gas infrastructure and high-tech solutions to National Grid, the national gas transmission company in the U.K. and one of the most respected specialist gas engineering companies in the world. Orbital has developed its portfolio of products, services and resources to offer a diverse range of personalized gas engineering solutions to the gas utilities, power generation, emissions, manufacturing and automotive industries. Moreover, its proprietary VE® Technology enhances the capability and speed of our GasPT2 Technology.

### **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 GasPT2. The Company has minimum commitments under this licensing contract.

The 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 in Canada, the Pipeline Research Counsel International (PRCI) in the US 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 2,500 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 GasPT2 Technology.

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, by using our GasPTi Technology, 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. It is this greater efficiency that has lead National Grid in the UK to change its entire turbine control strategy, recently cancelling an order for several GC’s and, in October 2013, replacing those GC’s with an order for eight (8) GasPTi devices specifically designed for natural gas-fired turbine control.

In conjunction with the Orbital acquisition, we have moved the entire GasPT2 technology portfolio, along with the VE-Probe, into Orbital’s product division, Orbital Global Solutions (Orbital-GS). Orbital-GS has successfully introduced the combined GasPT2 unit and VE-Probe to National Grid, the largest natural gas provider in the UK. In addition, along with passing first phase testing by GE-Energy in October/November 2012, the GasPTi device has now successfully undergone second phase testing with GE-Energy in October 2013.

In January 2012 the company entered into a five (5) year, exclusive distribution agreement for our GasPT2 technology with an Italian company, SOCRATE s.p.a. for sales, marketing, distribution and service of our GasPT2 gas metering device for Italy and North Africa, including Libya and Tunisia. SOCRATE is the “vendor-of-choice” for SNAM RETE GAS (“SRG”) and was referred to the company by SRG. SOCRATE continues to be involved in negotiations with SRG relative to both the 2010 Technical Upgrade of Metering Facilities and 2011/2012 New Capacity and Implementation Plan. In conjunction with those two initiatives, SRG transmission system has concluded 11 months of in-field testing with six (6) GasPTi units. Additionally, Orbital has received fiscal certification from the highly respected European certification company, NMI-Certin.

Following the acquisition of Orbital and the transfer of gas operations to Orbital-GS, the company has entered into a series of thirty-eight (38) Distribution Agreements with internationally recognized entities in the natural gas industry. These agreements are designed to supplement and enhance our previously announced and continuing

agreements with EMC, MGlobal, BWG/Blue Flame and SOCRATE.

### VE-Probe and VE-Technology

On July 30, 2013 our wholly owned subsidiary, Orbital Gas Systems, Ltd. acquired exclusive worldwide rights to manufacture, sell, design, and otherwise market the VE-Probe and VE-Technology from its United Kingdom-based inventor, EnDet Ltd. The agreement gives Orbital exclusive and sole control of all technology related to its revolutionary GasPT2 and GasPTi natural gas metering systems. The GasPT2 technology provides fast and accurate measurement of the physical properties of the natural gas mixture. By combining the GasPT2 technology with the equally unique VE-Probe, which is able to provide a gas sample from a high pressure transmission line in less than two seconds, Orbital has created the GasPTi metering system.

The GasPTi system is able to accurately provide almost real-time data to the natural gas operator in a total cycle-time of less than five seconds. Moreover, it provides this real-time analysis at approximately one-fifth of the installation cost of current technology with none of the associated maintenance, carrier gas, calibration gas, or other ancillary costs associated with traditional technology.

This VE-Technology acquisition gives us the ability to control and produce the entire Bill of Materials for our GasPTi systems, thus allowing us to capture a far larger margin as we provide this unique metering solution to the natural gas industry. Additionally, we can now also manufacture, market and sell additional applications for the VE-Technology, including sampling systems separate from the GasPT2 and Thermowells found throughout all pipeline systems.

### **Anticipated Growth Strategy for Our Electromechanical Product Line**

We hope to grow our electromechanical product line through a planned strategy to increase our name recognition as a technology company. Our plan, already in effect, includes:

- Developing collaborative relationships with our customers by seeking to meet their design needs in a timely and cost effective manner.

- Developing new technologies and expanded manufacturing capabilities as needed.

- Growing our global sales and distribution through our primary international distribution channel, a prominent international sales and distribution strategic partner that ships product to more than 170 countries worldwide from a single location in the United States.

- Directing our marketing efforts through one of our two channels, either directly with the sales representative who understands the targets in the area or through our distributor with partnership marketing.

- Attending strategic trade shows to grow our brand presence for our proprietary products. Because of our growing recognition in innovation, we need to be where the heads of the industries are, particularly at industry trade shows.

These areas, however, need forward-looking growth investment to understand the customers' needs and develop products accordingly. We are in line with market standards for quality, customer service and pricing. Our plan is to stay with this mark during our anticipated growth. We intend to expand according to our existing model. The expansion means more manufacturer representative coverage and outside sales people in strategic areas throughout the United States. We intend to eventually have field application engineers in the strategic areas driving designs at the

customers' facility.

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## **Anticipated Growth Strategy for GasPT2**

We are presently in the midst of our marketing efforts for our GasPT2 Inferential Natural Gas Monitoring Device. Our strategy for GasPT2 has been to identify the large gas utility companies who would most likely provide opportunities for batch sales rather than single unit sales. Our ‘sale or return’ sales approach has been accepted very positively in Europe and the United States. For the past three years, this approach focused strongly on the United Kingdom, Europe and the United States and the Company will continue its efforts in those areas as well as begin the process in the Asian markets, with India identified as the test market. Beyond this, our strategy is based on identification of the main geographical locations for liquefied natural gas importation (pipelines and terminals), mixing and blending points and strategic locations for security of supply strategies which can be current or planned pipelines and import terminals where additional gas quality monitoring may be required.

Additionally, our wholly owned subsidiary, Orbital Gas Systems, Ltd., the largest specialty gas engineering company in England, introduced the combined GasPT2 unit and V-Probe to National Grid, the largest gas transmission/distribution company in the UK. We recently entered into a second five (5) year, exclusive distribution agreement for our GasPT2 technology with an Italian company, SOCRATE s.p.a., for sales, marketing, distribution and service of our 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 up to \$40,000,000 to \$60,000,000 over the three-year term.

We intend to replicate this type of agreement with other large, regional gas engineering companies in Europe and North America as well as negotiating with several large Middle Eastern groups to place the device in the Gulf Region.

According to Global Industry Analysts, Inc. (GIA), the global GC market will reach more than \$1.5 billion by 2015. Admittedly, that market is mature and, according to GIA, is dominated by “aftermarket and accessories” sales. In contrast, the GasPT2 Technology is less expensive, more efficient and dramatically faster than any available GC. It provides almost real-time monitoring without the need for a large enclosure, carrier gas and, most significantly, regular technical support and calibration. Taking all of those factors into account, it is our intention that the GasPT2 Technology will rapidly and effectively penetrate a large segment of that \$1.5 billion market.

## **Acquisition Strategy:**

We are constantly alert to potential acquisition targets, both in the form of innovative technology and potential strategic partners. In that regard, we are repeatedly approached by inventors and others, most especially in the power industry, to assess and assist in commercialization and marketing of new technologies. These contacts largely arise because of our reputation and successes as well as our recent technology product line additions including GasPT2, Novum and Solus. Moreover, much like when we acquired CUI, Inc., there are many small, well-run electronics companies that become available for multiple reasons. We will consider each of these potential opportunities as they arise with a careful analysis of the relevant synergies with our current business, along with the potential for increasing revenue and/or market share.

### **Research and Development Activities**

Research and development costs for CUI Global were approximately \$1.2 million and \$900 thousand for the years ended December 31, 2014 and 2013, respectively. Research and development costs are related to the various technologies for which CUI Global has acquired licensing rights or is developing internally. The expenditures for research and development have been directed primarily towards the further development of Novum Advanced Power technologies including digital POLs and the Solus Topology, AMT Capacitive Encoders and towards the development of the GasPT2 and VE Probe technologies. The Company expects that research and development expenses will continue during 2015 as the Company continues to expand its product offering and technologies due to market acceptance and customer integration.

## **Employees**

As of December 31, 2014, the Company, together with its consolidated subsidiaries, had two hundred full-time employees. As of December 31, 2014, none of its employees is represented by a labor union. The Company considers its relations with its employees to be good. The Company plans to add additional staff as needed to handle all phases of its business.

## **Intellectual Property License Evolution**

### *AMT<sup>®</sup> encoder technology:*

Upon the acquisition of CUI, Inc., the Company obtained the relationship with the holder of the AMT encoder technology. Through an exclusive licensing contract with AnderMotion Technologies, LLC, signed on or about April 20, 2009, CUI acquired exclusive rights to manufacture, sell and distribute motion control devices utilizing the AMT encoder technology.

### *Novum<sup>®</sup> Digital POL technology*

Through a non-exclusive licensing agreement with Power-One, Inc., signed on or about September 18, 2009, CUI has access to Power-One's portfolio of Digital Power Technology patents for incorporation into CUI's new line of digital point of load (POL) power modules.

### *Solus<sup>®</sup> advanced power topology technology*

Through an exclusive licensing contract with California Power Research, Inc., signed on or about March 4, 2010, CUI acquired the exclusive rights to manufacture, market, sell, lease, maintain, give over and dispose of licensed product using the BPS-5 advanced power topology technology.

### *GasPT2 technology*

Through an exclusive licensing contract with GL Industrial Services UK, Ltd. (GL), formerly British-based Advantica, Ltd., signed on or about January 4, 2010, CUI Global acquired exclusive rights to manufacture, sell and distribute a Gas Quality Inferential Measurement Device (GasPT2) designed by GL on a worldwide basis.

### *VE-Probe and VE-Technology*

On July 30, 2013 our wholly owned subsidiary, Orbital Gas Systems, Ltd. acquired exclusive worldwide rights to manufacture, sell, design, and otherwise market the VE-Probe and VE-Technology from its United Kingdom-based

inventor, EnDet Ltd. The agreement gives Orbital exclusive and sole control of all technology related to its GasPT2 and GasPTi natural gas metering systems.

### **Intellectual Property Protection**

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.

Under the United States Trademark Act of 1946, as amended, and the system of international registration of trademarks governed by international treaties, the Madrid Agreement Concerning the International Registration of Marks and the Protocol Relating to the Madrid Agreement, administered by the World Intellectual Property Organization, which maintains the International Register, and, in several instances, direct trademark registration in foreign countries, we actively maintain up to date the following trademarks: CUI INC, CUI Europe, V-Infinity, AMT, Novum, CUI Global, Simple Digital, GasPT2, Solus, IRIS, Vergence and Orbital Gas Systems.

The Company continuously reviews and updates the existing intellectual property filings and files new documentation both nationally and internationally (Patent Cooperation Treaty) in a continuing effort to maintain up to date protection of its intellectual property.

For those intellectual property applications pending, there is no assurance that the registrations will be granted. Furthermore, the Company is exposed to the risk that other parties may claim the Company infringes their existing patent and trademark rights, which could result in the Company's inability to develop and market its products unless the Company enters into licensing agreements with the technology owner or could force the Company to engage in costly and potentially protracted litigation.

### **Competitive Business Conditions**

The industries in which the company competes are very broad. We operate a commoditized electromechanical parts distribution business that is focused on efficiency of delivery and competitive pricing to differentiate our products from competitors. The market is subject to some volatility due to production requirements of larger global firms. We feel that our electromechanical parts distribution business is diverse and broad. We have a very strong retail distribution partner that maximizes our product exposure to new designs and small to medium sized customers. We focus on the OEM market and supply higher levels of support, customer service and a constantly expanding product line, in order to further differentiate with our competitors. This product line ranges from a \$0.02 connector to a \$700 encoder – all different products for different customers. Additionally, we utilize third party external sales representative organizations to penetrate new and better customers otherwise not readily available to the company.

CUI is becoming more recognized in the power supply market and has differentiated itself through technology with a foundation of legacy and product quality. As of December 31, 2014, our power and electro-mechanical segment accounted for approximately 64.01% of our revenues and our gas segment accounted for approximately 35.99% of our revenues. We have added new products and technologies that will provide us the opportunity to compete outside of price and more on innovative technology and strategic partnerships.

From the first full featured digital point-of-load dc-dc converter, to the highly dense intermediate bus converters that CUI recently released, we believe that we are ahead of the market leaders in our market space and that the market is ready for new technologies and new ideas. We feel that there is a market shift toward digitally-based controllers for power supply switching. Our strategy is to lead a transformation for the industry as it will become a major part of the value to the end customer as well as a data collection point for energy consumption, two important elements for the industry.

Similarly, the natural gas inferential metering device, the GasPT2 along with our VE-Probe, competes in a mature industry with established competitors. There are significant investments being made globally into the natural gas extraction and transportation infrastructure. Our natural gas quality measurement system is a comparably low cost

solution to measuring natural gas quality as compared to our best competition. 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)." This technology has been certified for use in fiscal monitoring by Ofgem in the United Kingdom and SNAM RETE in Italy. At present, there is no equivalent product competition. There are instruments like gas chromatographs, but they are slower and more complicated to use and as much as double the price of the GasPT2 system.

## **Philanthropic Philosophy**

In an industry first, CUI has chosen that, in addition to sales commission, sales representative firms will also receive a charity commission to be donated to charities of their choice. One of CUI's core values is generosity which includes philanthropic giving. We give in our local community and we want to also give in the communities in which we do business.

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

### **RISK FACTORS**

Our business is subject to various risks and uncertainties. Investors should read carefully the following factors as well as the cautionary statements referred to in "Forward-Looking Statements" herein. If any of the risks and uncertainties described below or elsewhere in this Annual Report actually occur, the Company's business, financial condition or results of operations could be materially adversely affected.

#### **Risks Related to Our Business and Products**

*Historically, we have generated annual losses from operations and we may need additional funding in the future.*

Historically, on an annual basis, we have not generated sufficient revenues from operations to self-fund our capital and operating requirements. For the year ended 2014, we had a net loss of \$2,801,278 and our accumulated deficit as of December 31, 2014 was \$82,716,744. If we are not able to generate sufficient income and cash flows from operations to fund our operations and growth plans, we may seek additional capital from equity and debt placements or corporate arrangements. Additional capital may not be available on terms favorable to us, or at all. If we raise additional funds by issuing equity securities, our shareholders may experience dilution. Debt financing, if available, may involve restrictive covenants or security interests in our assets. If we raise additional funds through collaboration arrangements with third parties, it may be necessary to relinquish some rights to technologies or products. If we are unable to raise adequate funds or generate them from operations, it may have to delay, reduce the scope of, or eliminate some or all of its growth plans or liquidate some or all of our assets.

*There is no assurance we will achieve or sustain profitability.*

For the year ended December 31, 2014, we had a net loss of \$2,801,278. There is no assurance that we will achieve or sustain profitability. If we fail to achieve or sustain profitability, the price of our common stock could fall and our ability to raise additional capital could be adversely affected.





*We have expanded our business activities and these activities may not be successful and may divert our resources from our existing business activities.*

Our historic business was a commoditized electromechanical parts distribution business. In recent years, we have focused our business on the acquisition, development and commercialization of new and innovative electronic technologies/products. We may not be successful in acquiring technologies that are commercially viable. We may fail to successfully develop or commercialize technologies that we acquire. Research, development and commercialization of such acquired technologies may disproportionately divert our resources from our other business activities.

*If our manufacturers or our suppliers are unable to provide an adequate supply of products, our growth could be limited and our business could be harmed.*

We rely on third parties to supply components for and to manufacture our products. In order to grow our business to achieve profitability, we will need our manufacturers and suppliers to increase, or scale-up, production and supply by a significant factor over current levels. There are technical challenges to scaling-up capacity that may require the investment of substantial additional funds by our manufacturers or suppliers and hiring and retaining additional management and technical personnel who have the necessary experience. If our manufacturers and suppliers are unable to do so, we may not be able to meet the requirements to grow our business to anticipated levels. We also may represent only a small portion of our supplier's or manufacturer's business and if they become capacity constrained they may choose to allocate their available resources to other customers that represent a larger portion of their business.

*Our international operations are subject to increased risks which could harm our business, operating results and financial condition.*

Our ability to manage our business and conduct our operations internationally requires considerable management attention and resources and is subject to a number of risks, including the following:

- challenges caused by distance, language and cultural differences and by doing business with foreign agencies and governments;
- longer payment cycles in some countries;
- uncertainty regarding liability for services and content;
- credit risk and higher levels of payment fraud;
- currency exchange rate fluctuations and our ability to manage these fluctuations;
- foreign exchange controls that might prevent us from repatriating cash earned in countries outside the U.S.;
- import and export requirements that may prevent us from shipping products or providing services to a particular market and may increase our operating costs;
- potentially adverse tax consequences;
- higher costs associated with doing business internationally;
- political, social and economic instability abroad, terrorist attacks and security concerns in general;
- reduced or varied protection for intellectual property rights in some countries; and
- different employee/employer relationships and the existence of workers' councils and labor unions.

In addition, compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business in international venues and could expose us or our employees to fines and penalties. These numerous and sometimes conflicting laws and regulations include import and export requirements, content requirements, trade restrictions, tax laws, sanctions, internal and disclosure control rules, data privacy requirements, labor relations laws, U.S. laws such as the Foreign Corrupt Practices Act and local laws prohibiting corrupt payments to governmental officials. Violations of these laws and regulations could result in fines, civil and criminal penalties against us, our officers or our employees, prohibitions on the conduct of our business and damage to our reputation. Any such violations could include prohibitions on our ability to offer our products and services in one or more countries and could also materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results.

Our revenues depend on key customers and suppliers.

The Company's major product lines in 2014 and 2013 were power and electro-mechanical products and natural gas infrastructure and high-tech solutions. During 2012 the company's major product lines were power and electro-mechanical products.

During 2014, 52% of revenues were derived from three customers at 30%, 16% and 6%. During 2013, 50% of revenues were derived from two customers at 33% and 17%. During 2012, 51% of revenues were derived from two customers at 47% and 4%.

At December 31, 2014, of the gross trade accounts receivable totaling approximately \$12.1 million, 38% was due from three customers: 16%, 13% and 9%. At December 31, 2013, of the gross trade accounts receivable totaling approximately \$9.3 million, 25% was due from one customer. At December 31, 2012, 45% of the gross trade accounts receivable totaling approximately \$5.1 million, was due from two customers: 37% and 8%.

During 2014, the Company had one supplier concentration of 11% related to inventory product received.

With the United Kingdom operations of Orbital Gas Systems, the Company also has foreign revenue and trade accounts receivable concentrations in the United Kingdom of 34% and 46%, respectively for the year ended December 31, 2014.

There is no assurance that we will continue to maintain all of our existing key customers in the future. Should we, for any reason, discontinue our business relationship with any one of these key customers, the impact to our revenue stream would be substantial.

We rely on third party distributors to generate a substantial part of our revenue and, if we fail to expand and manage our distribution channels, our revenues could decline and our growth prospects could suffer.

We derive a substantial portion of our revenues from sales of our electronic component products through distributors and we expect that sales through these distributors will represent a substantial portion of our revenues for the foreseeable future. Our ability to expand our distribution channels depends in part on our ability to educate our distributors about our products, which are complex. Many of our distributors have established relationships with our competitors. If our distributors choose to place greater emphasis on products and services of their own or those offered by our competitors, our ability to grow our business and sell our products may be adversely affected. If our distributors do not effectively market and sell our products, or if they fail to meet the needs of our customers, then our ability to grow our business and sell our products may be adversely affected. The loss of one or more of our larger

distributors, who may cease marketing our products with limited or no notice and our possible inability to replace them, could adversely affect our sales. Our failure to recruit additional distributors or any reduction or delay in their sales of our products or conflicts between distributor sales and our direct sales and marketing activities could materially and adversely affect our results of operations.

*We are a relatively small specialty component and solutions business and face formidable competition.*

We define our product offerings into two categories: **Power and Electro-Mechanical Segment** (power supply units) that includes our Novum Digital Power and Solus Advanced Power and components including our AMT modular encoder and our **Gas Segment** which includes the GasPT2, VE Probe and IRIS among other gas related products. We are a relatively small company with limited capitalization in comparison to many of our international competitors. Because of our size and capitalization, we believe that we have not yet established sufficient market awareness in the specialty electronic component and solutions business that is essential to our continued growth and success in all of our markets. We face formidable competition in every aspect of our specialty component and solutions business from other companies many of whom have greater name recognition, more resources and broader product offerings than ours.

We also expect competition to intensify in the future. For example, the market for our electronic components and our inferential natural gas monitoring device, the GasPT2, is emerging and is characterized by rapid technological change, evolving industry standards, frequent new product introductions and shortening product life cycles. Our future success in keeping pace with technological developments and achieving product acceptance depends upon our ability to enhance our current products and to continue to develop and introduce new product offerings and enhanced performance features and functionality on a timely basis at competitive prices. Our inability, for technological or other reasons, to enhance, develop, introduce or deliver compelling products in a timely manner, or at all, in response to changing market conditions, technologies or customer expectations, could have a material adverse effect on our operating results and growth prospects. Our ability to compete successfully will depend in large measure on our ability to maintain a technically skilled development and engineering staff and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of our products with evolving industry standards and protocols and competitive environments.

*Acquisitions could result in operating difficulties, dilution and other harmful consequences.*

We continue our process of integrating recent acquisitions into our own business model and we expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions. These transactions could be material to our financial condition and results of operations. The process of integrating an acquired company, business or technologies may create unforeseen operating difficulties and expenditures. The areas where we face risks include:

- implementation or remediation of controls, procedures and policies of the acquired company;
  - diversion of management time and focus from operating our business to acquisition integration challenges;
    - coordination of product, engineering and sales and marketing functions;
    - transition of operations, users and customers into our existing customs;
  - cultural challenges associated with integrating employees from the acquired company into our organization;
    - retention of employees from the businesses we acquire;
- integration of the acquired company's accounting, management information, human resource and other administrative systems;

liability for activities of the acquired company before the acquisition, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities;  
litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former shareholders, or other third parties;  
in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries;  
failure to successfully further develop the acquired technologies; and  
other as yet unknown risks that may impact our business.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions could cause us to fail to realize the anticipated benefits of such acquisitions incur unanticipated liabilities and harm our business generally. For example, a majority of Orbital Gas Systems Limited's revenues for each of its last two fiscal years has come from a few customers. If we fail to continue to do business with Orbital's primary customers at substantially similar or greater levels than recent historical levels, our financial condition, results of operations and growth prospects would be significantly harmed.

Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization expenses, write-offs of goodwill, or reductions to our tangible net worth any of which could harm our business, financial condition, results of operations and prospects. Also, the anticipated benefit of many of our acquisitions may not materialize.

*We will need to grow our organization and we may encounter difficulties in managing this growth.*

As of December 31, 2014, the Company, together with its consolidated subsidiaries, had two hundred full-time employees. We expect to experience significant growth in the number of our employees and the scope of our operations. To manage our anticipated future growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Also, our management may need to divert a disproportionate amount of its attention away from our day-to-day activities and devote a substantial amount of time to managing these growth activities. Due to our limited resources, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel, which may result in weaknesses in our infrastructure, give rise to operational mistakes, loss of business opportunities, loss of employees and reduced productivity among remaining employees. The physical expansion of our operations may lead to significant costs and may divert financial resources from other projects, such as the development of new products. If our management is unable to effectively manage our expected growth, our expenses may increase more than expected, our ability to generate or increase our revenue could be reduced and we may not be able to implement our business strategy. Our future financial performance and our ability to commercialize new products including the GasPT2, VE, IRIS, Novum and Solus advanced power products and compete effectively will depend, in part, on our ability to effectively manage any future growth.

*Our operating results will vary over time and such fluctuations could cause the market price of our common stock to decline.*

Our operating results may fluctuate significantly due to a variety of factors, many of which are outside of our control. Because revenues for any future period are not predictable with any significant degree of certainty, you should not rely on our past results as an indication of our future performance. If our revenues or operating results fall below the expectations of investors or securities analysts or below any estimates we may provide to the market, the price of our common shares would likely decline substantially. Factors that could cause our operating results and stock price to fluctuate include:

- varying demand for our products due to the financial and operating condition of our distributors and their customers, distributor inventory management practices and general economic conditions;
- inability of our contract manufacturers and suppliers to meet our demand;
- success and timing of new product introductions by us and the performance of our products generally;
- announcements by us or our competitors regarding products, promotions or other transactions;
- costs related to responding to government inquiries related to regulatory compliance;
- our ability to control and reduce product costs;
- changes in the manner in which we sell products;
- volatility in foreign exchange rates, changes in interest rates and/or the availability and cost of financing or other working capital to our distributors and their customers; and
- the impact of write downs of excess and obsolete inventory.

*Our operating expenses will increase as we make further expenditures to enhance and expand our operations in order to support additional growth in our business and national stock market reporting and compliance obligations.*

Historically, we limited our investment in operations, but in the future we expect our operations and marketing investments to increase substantially to support our anticipated growth and as a result of our listing on the NASDAQ Stock Market. We are making significant investments in using more professional services and expanding our operations outside the United States. We intend to make additional investments in personnel and continue to expand our operations to support anticipated growth in our business. In addition, we may determine the need in the future to build a direct sales force to market and sell our products or provide additional resources or cooperative funds to our distributors. Such changes to our existing sales model would likely result in higher selling, general and administrative expenses as a percentage of our revenues. We expect our increased investments to adversely affect operating income in the short term while providing long term benefit.

*Our business depends on a strong brand and failing to maintain and enhance our brand would hurt our ability to expand our base of distributors, customers and end-users.*

We believe that we have not yet established sufficient market awareness in the electronic component market. Market awareness of our capabilities and products is essential to our continued growth and our success in all of our markets. We expect the brand identity that we have developed through CUI, GasPT2, Orbital Gas Systems, IRIS, Novum, AMT, Solus and CUI Japan to significantly contribute to the success of our business. Maintaining and enhancing these brands is critical to expanding our base of distributors, customers and end-users. If we fail to maintain and enhance our brands, or if we incur excessive expenses in this effort, our business, operating results and financial condition will be materially and adversely affected. Maintaining and enhancing our brands will depend largely on our ability to be a

technology leader and continue to provide high-quality products, which we may not do successfully.



*New entrants and the introduction of other distribution models in our markets may harm our competitive position.*

The markets for development, distribution and sale of our products are rapidly evolving. New entrants seeking to gain market share by introducing new technology and new products may make it more difficult for us to sell our products and could create increased pricing pressure, reduced profit margins, increased sales and marketing expenses or the loss of market share or expected market share, any of which may significantly harm our business, operating results and financial condition.

*Adverse conditions in the global economy and disruption of financial markets may significantly restrict our ability to generate revenues or obtain debt or equity financing.*

The global economy continues to experience volatility and uncertainty and governments in many countries continue to evaluate and implement spending cuts designed to reduce budget deficits. These conditions and deficit reduction measures could reduce demand for our products and services, including through reduced government infrastructure projects, which would significantly jeopardize our ability to achieve our sales targets. These conditions could also affect our potential strategic partners, which, in turn, could make it more difficult to execute a strategic collaboration. Moreover, volatility and disruption of financial markets could limit our customers' ability to obtain adequate financing or credit to purchase and pay for our products and services in a timely manner, or to maintain operations and result in a decrease in sales volume. General concerns about the fundamental soundness of domestic and international economies may also cause customers to reduce purchases. Changes in governmental banking, monetary and fiscal policies to restore liquidity and increase credit availability may not be effective. Economic conditions and market turbulence may also impact our suppliers' ability to supply sufficient quantities of product components in a timely manner, which could impair our ability to fulfill sales orders. It is difficult to determine the extent of the economic and financial market problems and the many ways in which they may affect our suppliers, customers, investors and business in general. Continuation or further deterioration of these financial and macroeconomic conditions could significantly harm sales, profitability and results of operations.

*One of our subsidiaries and certain suppliers are in Japan and located in areas subject to natural disasters or other events that could stop us from having our products made or shipped or could result in a substantial delay in our production or development activities.*

We have research, development and manufacturing resources in Japan. The risk of earthquakes, typhoons and other natural disasters in this geographic area is significant due to the proximity of major earthquake fault lines. Despite precautions taken by us and our third-party providers, over which we have no control, a natural disaster or other unanticipated problems at our location in Japan or a third-party provider could cause interruptions in the products that we provide. Earthquakes, fire, flooding or other natural disasters could result in the disruption of our development, manufacturing, assembly, testing or shipping capacity. Any disruption resulting from these events could cause significant delays in product development or shipments of our products until we are able to shift our development, manufacturing, assembly or testing from the affected contractor to another third party vendor or our research and development activities to another location. We cannot assure you that alternative capacity could be obtained on favorable terms, if at all.

*Defects in our products could harm our reputation and business.*

Our electronic products are complex and have contained and may contain undetected defects or errors, especially when first introduced or when new versions are released. Defects in our products may lead to product returns and require us to implement design changes or updates.

Any defects or errors in our electronic products, or the perception of such defects or errors, could result in:

expenditure of significant financial and product development resources in efforts to analyze, correct, eliminate or work around errors or defects;

loss of existing or potential customers or distributors;  
delayed or lost revenue;  
delay or failure to attain market acceptance;  
delay in the development or release of new products or services;

negative publicity, which will harm our reputation; warranty claims against us, which could result in an increase in our provision for doubtful accounts;

an increase in collection cycles for accounts receivable or the expense and risk of litigation; and  
harm to our results of operations.

*We and our contract manufacturers purchase some components, subassemblies and products from a limited number of suppliers. The loss of any of these suppliers may substantially disrupt our ability to obtain orders and fulfill sales as we design and qualify new components.*

We rely on third party components and technology to build and operate our products and we rely on our contract manufacturers to obtain the components, subassemblies and products necessary for the manufacture of our products. Shortages in components that we use in our products are possible and our ability to predict the availability of such components is limited. If shortages occur in the future, as they have in the past, our business, operating results and financial condition would be materially adversely affected. Unpredictable price increases of such components due to market demand may occur. While components and supplies are generally available from a variety of sources, we and our contract manufacturers currently depend on a single or limited number of suppliers for several components for our products. If our suppliers of these components or technology were to enter into exclusive relationships with other providers of electronic components or were to discontinue providing such components and technology to us and we were unable to replace them cost effectively, or at all, our ability to provide our products would be impaired. Therefore, we may be unable to meet customer demand for our products, which would have a material adverse effect on our business, operating results and financial condition.

*We depend on key personnel and will need to recruit new personnel as our business grows.*

As a small company, our future success depends in a large part upon the continued service of key members of our senior management team who are critical to the overall management of CUI Global and our subsidiary companies, Orbital Gas Systems, Ltd., CUI, Inc. and CUI Japan as well as the development of our technologies, our business culture and our strategic direction. The loss of any of our management or key personnel could seriously harm our business and we do not maintain any key-person life insurance policies on the lives of these critical individuals.

If we are successful in expanding our product and customer base, we will need to add additional key personnel as our business continues to grow. If we cannot attract and retain enough qualified and skilled staff, the growth of the business may be limited. Our ability to provide services to customers and expand our business depends, in part, on our

ability to attract and retain staff with professional experiences that are relevant to technology development and other functions the Company performs. Competition for personnel with these skills is intense. We may not be able to recruit or retain the caliber of staff required to carry out essential functions at the pace necessary to sustain or expand our business.

We believe our future success will depend in part on the following:

- the continued employment and performance of our senior management;
  - our ability to retain and motivate our officers and key employees; and
- our ability to identify, attract, hire, train, retain and motivate other highly skilled technical, managerial, marketing, sales and customer service personnel.

### **Risks Related to Our Intellectual Property and Technology**

*If we fail to protect our intellectual property rights adequately, our ability to compete effectively or to defend ourselves from litigation could be impaired.*

We rely primarily on patent, copyright, trademark and trade secret laws, as well as confidentiality and non-disclosure agreements and other methods, to protect our proprietary technologies and know-how. Given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important. Furthermore, there is always the possibility, despite our efforts, that the scope of the protection gained will be insufficient or that an issued patent may be deemed invalid or unenforceable. We license a significant amount of our underlying intellectual property from third parties, i. e., AMT Encoder Technology, Novum Digital Point of Load Technology, Solus Advanced Power Topology Technology, GasPT2 Technology and VE-Technology. The loss of our rights as a licensee under any of these or future technology licensing arrangements, or the exclusivity provisions of these agreements, could have a material adverse impact upon our financial position and results of operations.

Monitoring unauthorized use of our intellectual property is difficult and costly. Unauthorized use of our intellectual property may occur in the future without our knowledge. The steps we have taken may not prevent unauthorized use of our intellectual property. Further, we may not be able to detect unauthorized use of, or take appropriate steps to enforce our intellectual property rights. Our competitors may also independently develop similar technology. Our failure to effectively protect our intellectual property could reduce the value of our technology in licensing arrangements or in cross-licensing negotiations and could impair our ability to compete. Any failure by us to meaningfully protect our intellectual property could result in competitors offering products that incorporate our most technologically advanced features, which could seriously reduce demand for our products.

We may in the future need to initiate infringement claims or litigation. Litigation, whether we are a plaintiff or a defendant, can be expensive and time-consuming and may divert the efforts of our technical staff and managerial personnel, which could result in lower revenues and higher expenses, whether or not such litigation results in a determination favorable to us.

*Confidentiality agreements with employees and others may not adequately prevent disclosure of our trade secrets and other proprietary information.*

We have devoted substantial resources to the development of our proprietary technology and trade secrets. In order to protect our proprietary technology and trade secrets, we rely in part on confidentiality agreements with our key

employees, licensees, independent contractors and other advisors. These agreements may not effectively prevent disclosure of our trade secrets and may not provide an adequate remedy in the event of unauthorized disclosure of our trade secrets. We may have difficulty enforcing our rights to our proprietary technology and trade secrets, which could have a material adverse effect on our business, operating results and financial condition. In addition, others may independently discover trade secrets and proprietary information and in such cases we could not assert any trade secret rights against such parties. Costly and time consuming litigation could be necessary to determine and enforce the scope of our proprietary rights and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

*If a third party asserts that we are infringing on its intellectual property, whether successful or not, it could subject us to costly and time-consuming litigation and our business may be adversely affected.*

The technology industry is characterized by the existence of a large number of patents, trademarks and copyrights and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. Third parties may assert patent and other intellectual property infringement claims against us or the parties from whom we license our technological rights in the form of lawsuits, letters or other forms of communication. These claims, whether or not successful, could:

- divert management's attention;
- result in costly and time-consuming litigation;
- require us to enter into royalty or licensing agreements, which may not be available on acceptable terms, or at all; and
- require us to redesign our products to avoid infringement.

As a result, any third-party intellectual property claims against us could increase our expenses and adversely affect our business. Even if we have not infringed any third parties' intellectual property rights, we cannot be sure our legal defenses will be successful and even if we are successful in defending against such claims, our legal defense could require significant financial resources and management time. Finally, if a third party successfully asserts a claim that our products infringe its proprietary rights, royalty or licensing agreements might not be available on terms we find acceptable or at all and we may be required to pay significant monetary damages to such third party.

*If our contract manufacturers do not respect our intellectual property and trade secrets, our business, operating results and financial condition could be materially adversely affected.*

Because most of our contract manufacturers operate outside the United States, where prosecution of intellectual property infringement and trade secret theft is more difficult than in the United States, certain of our contract manufacturers, their affiliates, their other customers or their suppliers may attempt to use our intellectual property and trade secrets to manufacture our products for themselves or others without our knowledge. Although we attempt to enter into agreements with our manufacturers to preclude them from using our intellectual property and trade secrets, we may be unsuccessful in monitoring and enforcing our intellectual property rights. Although we take steps to stop counterfeits, we may not be successful and customers who purchase these counterfeit goods may have a bad experience and our brand may be harmed. If such an impermissible use of our intellectual property or trade secrets were to occur, our ability to sell our products at competitive prices and to be the sole provider of our products may be adversely affected and our business, operating results and financial condition could be materially and adversely affected.

## **Risks Related to Our Common Stock**

*Our common stock price may be volatile, which could result in substantial losses for individual shareholders.*

The market price for the Company's common stock is volatile and subject to wide fluctuations in response to factors, including the following, some of which are beyond our control, which means our market price could be depressed and could impair our ability to raise capital:

- actual or anticipated variations in our quarterly operating results;
- announcements of technological innovations or new products or services by the Company or our competitors;



- conditions or trends relating to our inferential natural gas monitoring device or electromechanical component technologies;
- changes in the economic performance and/or market valuations of other electromechanical, electronic component and industrial controls related companies;
- conditions or trends relating to the marketing, sale or distribution of electromechanical components and industrial controls to OEM manufacturing customers;
- changes in the economic performance and/or market valuations of other inferential natural gas monitoring device or electromechanical components and industrial electronic component related companies;
  - additions or departures of key personnel;
  - fluctuations of the stock market as a whole;
  - announcements about our earnings that are not in line with expectations;
  - announcements by our competitors of their earnings that are not in line with expectations;
  - the volume of shares of common stock available for public sale;
  - sales of stock by us or by our shareholders;
  - short sales, hedging and other derivative transactions on shares of our common stock;
- our ability to retain existing customers, attract new customers and satisfy our customers' requirements;
  - general economic conditions;
  - changes in our pricing policies;
  - our ability to expand our business;
  - the effectiveness of our personnel;
  - new product and service introductions;
  - technical difficulties or interruptions in our services;
  - the timing of additional investments in our products;
  - regulatory compliance costs;
  - costs associated with future acquisitions of technologies and businesses; and
  - extraordinary expenses such as litigation or other dispute-related settlement payments.

These factors may materially and adversely affect the market price of our common stock, regardless of our performance. In addition, the stock market in general and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our actual operating performance. Additionally, because our stock is thinly trading, there is a disparity between the bid and the asked price that may not be indicative of the stock's true value.

*Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.*

Sales of a significant number of shares of our common stock in the public market could harm the market price of our common stock and make it more difficult for us to raise funds through future offerings of common stock.

*We have never paid dividends on our common stock and do not expect to pay any in the foreseeable future.*

Potential purchasers should not expect to receive a return on their investment in the form of dividends on our common stock. The Company has never paid cash dividends on its common stock and the Company does not expect to pay dividends in the foreseeable future.

We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. Our payment of any future dividends will be at the discretion of our board of directors after taking into account various factors, including but not limited to our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that we may be a party to at the time. Our ability to pay dividends on our common stock is limited by our existing line of credit, and may be further restricted by the terms of any of our future debt or preferred securities. Accordingly, investors must rely on sales of their own common stock after price appreciation, which may never occur, as the only way to realize their investment. Investors seeking cash dividends should not purchase shares.

*There is a limited public trading market for our common stock so you may not be able to resell your stock and may not be able to turn your investment into cash.*

Our common stock is currently traded on the NASDAQ Stock Market under the trading symbol “CUI”. Our shares of common stock are thinly traded. Due to the illiquidity, the market price may not accurately reflect our relative value. There can be no assurance that there will be an active market for our shares of common stock either now or in the future. Because our common stock is thinly traded, a large block of shares traded can lead to a dramatic fluctuation in the share price and investors may not be able to liquidate their investment in us at all or at a price that reflects the value of the business.

### **Risks Relating to Shareholder Rights**

*Our board of directors has the authority, without shareholder approval, to issue preferred stock with terms that may not be beneficial to existing common shareholders and with the ability to adversely affect shareholder voting power and perpetuate their control over us.*

Although we do not have any preferred stock outstanding presently, our Articles of Incorporation allow us to issue shares of preferred stock without any vote or further action by our shareholders. Our board of directors has the authority to issue preferred stock without further shareholder approval, including large blocks of preferred stock as well as the authority to fix and determine the relative rights and preferences of preferred stock. As a result, our board of directors could authorize the issuance of a series of preferred stock that would grant to holders the preferred right to our assets upon liquidation, the right to receive dividend payments before dividends are distributed to the holders of common stock or other preferred shareholders and the right to the redemption of the shares, together with a premium, prior to the redemption of our common stock.

Preferred stock could be used to dilute a potential hostile acquirer. Accordingly, any future issuance of preferred stock or any rights to purchase preferred shares may have the effect of making it more difficult for a third party to acquire control of us. This may delay, defer or prevent a change of control or an unsolicited acquisition proposal. The issuance of preferred stock also could decrease the amount of earnings attributable to and assets available for distribution to, the holders of our common stock and could adversely affect the rights and powers, including voting rights, of the holders of our common stock and preferred stock.

*Our Articles of Incorporation limits director liability, thereby making it difficult to bring any action against them for breach of fiduciary duty.*

The Company is a Colorado corporation. As permitted by Colorado law, the Company's Articles of Incorporation limits the liability of directors to the Company or its shareholders for monetary damages for breach of a director's fiduciary duty, with certain exceptions. These provisions may discourage shareholders from bringing suit against a director for breach of fiduciary duty and may reduce the likelihood of derivative litigation brought by shareholders on behalf of the Company against a director.

*Our charter documents and note outstanding to IED, Inc. may inhibit a takeover that shareholders consider favorable.*

Provisions of our Articles of Incorporation and Bylaws may delay or discourage transactions involving an actual or potential change in control of the Company, including transactions in which shareholders might otherwise receive a premium for their shares, or transactions that our shareholders might otherwise deem to be in their best interests. These provisions:

- provide that the authorized number of directors may be changed by resolution of the board of directors;
- provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum; and
- do not provide for cumulative voting rights.

Our operating subsidiary, CUI, Inc. issued a note to IED, Inc. in connection with our acquisition of CUI, Inc. The note provides that, for so long as any obligations are outstanding under the note, IED will have a right to match any bona fide offer from a third party to acquire CUI, Inc. by any means. This matching right could discourage third parties from making an offer to acquire us, which would involve indirectly acquiring CUI, Inc., or from acquiring CUI, Inc. directly, in a transaction our shareholders might find advantageous because any such offer could be matched by IED and result in the third party utilizing time and resources to formulate an offer without being able to complete a transaction.

### **Risks Related to Our Recent Acquisition of Orbital Gas Systems**

*A significant portion of our total assets consists of goodwill, which is subject to a periodic impairment analysis, and a significant impairment determination in any future period could have an adverse effect on our results of operations even without a significant loss of revenue or increase in cash expenses attributable to such period.*

We have goodwill totaling approximately \$8.9 million associated with the acquisition of Orbital Gas Systems. We will be required to evaluate this goodwill for impairment based on the fair value of the operating business units to which this goodwill relates, at least once a year. This estimated fair value could change if we are unable to achieve operating results at the levels that have been forecasted, the market valuation of those business units decreases based on transactions involving similar companies, or there is a permanent, negative change in the market demand for the services offered by the business units. 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.

*Our operating results may be affected by fluctuations in foreign currency exchange rates, which may affect our operating results in U.S. dollar terms.*

A portion of our revenue arises from our international operations and we anticipate that, as we grow, our revenues from international operations will increase. Revenues generated and expenses incurred by our international operations are often denominated in local currencies. As a result, our consolidated U.S. dollar financial statements are subject to fluctuations due to changes in exchange rates as revenues and expenses of our international operations are translated from local currencies into U.S. dollars. In addition, our financial results are subject to changes in exchange rates that impact the settlement of transactions. The Company does not undertake any hedges to protect against adverse foreign currency exposure.

*Our gas quality inferential measurement device, GasPT2, has not gained market acceptance as rapidly as we anticipated. There is no assurance our acquisition of Orbital will accelerate sales of the GasPT2 device.*

Our future financial performance and ability to commercialize the GasPT2 device and compete successfully will depend on our ability to effectively manage acceptance and introduction of our GasPT2 device in the natural gas quality inferential measurement device market. Although we have entered into agreements and letters of understanding with third parties, which could result in substantial sales of the GasPT2 device over the next several years, there is no assurance we will sell at or near the number of units forecasted under these contracts.

Several factors have and may continue to contribute to the slower than anticipated market acceptance of the GasPT2 device, such as: disruptive technologies, such as the GasPT2 device, are slow to be accepted in a mature industry, such as natural gas distribution; extensive testing and research required by large natural gas distribution customers takes an extended period of time before such potential customers place firm orders; macro-economic issues in the natural gas industry may slow or impede capital expenditures; registration, regulatory approvals, certifications and licensing requirements in foreign countries.

Our strategy has been to establish market acceptance and credibility with potential customers through a campaign of product exposure and disclosure of highly acceptable test results of recognized international testing laboratories along with industry seminars, conventions, trade shows, professional periodicals and public relations. While we believe that the base has been laid for substantial sales of our GasPT2 device over the next several years, there is no assurance that our strategy and efforts will be successful. Also, while our management is optimistic that the acquisition of Orbital will stimulate and accelerate sales of the GasPT2 device, there is no assurance that GasPT2 device sales will actually increase in the near future due to the Orbital acquisition.

*The loss of any of Orbital's key management or employees could harm Orbital's future business prospects.*

We will be dependent upon the existing management team and key employees of Orbital for the foreseeable future. As of December 31, 2014, Orbital had approximately 120 employees, who are primarily focused on engineering, sales and manufacturing. Andrew Ridge continues to be primarily responsible for the day-to-day operations of Orbital since 2010 as Managing Director of Orbital. The company has further identified key directors who operate day-to-day activities of Orbital in order to provide: (1) an organized succession plan; and (2) the ability to allow Mr. Ridge to direct more of his attention to sales, marketing and technical issues.

#### **Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

During September, 2013, our wholly owned subsidiary, CUI Properties, LLC, signed closing documents on the purchase of our Tualatin, Oregon corporate office real estate located at 20050 SW 112th Avenue in the Tualatin Franklin Business Park. The purchase price for this acquisition was \$5,050,000 and was partially funded by a promissory note payable to Wells Fargo Bank in the amount of \$3,693,750 plus interest at the rate of 2.0% above LIBOR, payable over ten years.

Additionally, CUI Japan has leased space in Tokyo, Japan.

As an integrated part of the Orbital Gas Systems Limited acquisition, CUI Global, Inc. acquired the land and buildings owned by Orbital. In addition to the land and buildings owned by Orbital, Orbital leases additional facilities for office and manufacturing space requirements.

### **Item 3. 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 4. Mine Safety Disclosure**

Not applicable.

## **PART II**

### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

#### Description of Securities

The Company's Common Stock is traded on The NASDAQ Stock Market under the trading symbol "CUI". The Company currently has authorized 325,000,000 common shares, par value \$0.001 per share, and as of December 31, 2014, the Company's issued and outstanding shares consisted of 20,747,740 shares of common stock of which 19,889,889 shares are freely tradable without restriction or limitation under the Securities Act. As of December 31, 2014, the Company had in excess of 3,000 beneficial holders of our common stock and in excess of 2,300 shareholders of record. The actual number of shareholders is greater than this number of record holders and includes shareholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. Effective September 17, 2012, the Board of Directors passed a resolution eliminating and discontinuing all



Series A and B Convertible Preferred and Series C Preferred stock.

The holders of Common Stock are entitled to one vote per share and do not have cumulative voting rights. Holders of the Company's Common Stock do not have any pre-emptive or other rights to subscribe for or purchase additional shares of capital stock and no conversion rights, redemption or sinking-fund provisions.

*Our 2012 Public Offering*

On August 23, 2011 the shareholders approved a reverse split of the issued and outstanding shares of \$0.001 par value common stock. The reverse split ratio was set at one for thirty (1:30) that became effective February 17, 2012. The reverse split was an element necessary for up-listing the common stock on The NASDAQ Stock Market that became effective February 17, 2012 under the trading symbol "CUI".

The reverse split did not affect any stockholder's proportionate equity interest in the Company or the rights, preferences, privileges or priorities of any stockholder, other than an adjustment due to fractional shares. The reverse split did not cause a significant change in the number of beneficial owners of our common stock. Likewise, the reverse split did not affect the total stockholders' equity in the Company or any components of stockholders' equity as reflected on the financial statements of the Company except to change the number of issued and outstanding shares of capital stock.

The company filed a Form S-1 registration statement to register 2,222,222 shares of \$0.001 par value common stock that became effective February 14, 2012. These shares of registered stock were sold to or through Merriman Capital, Inc. as our underwriter for ten million dollars (\$10,000,000). Our underwriting agreement contained an over-allotment provision that permitted our underwriter to purchase an additional 333,333 shares of our common stock which were purchased by our underwriter for one million five hundred thousand dollars (\$1,500,000).

We received \$8,913,302 in net proceeds from our sale of 2,222,222 common shares sold by us in the Form S-1 offering. Our net proceeds from this offering represent the amount we received after paying the underwriter commissions of \$750,000 and underwriting expenses of \$200,000. In conjunction with the Form S-1 Offering, we received \$1,387,499 in net proceeds from our sale of 333,333 common shares sold by us in the over-allotment offering. Our net proceeds from this offering represent the amount we received after paying the underwriter discount of \$112,500 and total expenses of \$136,698.

The following schedule shows the common stock issuances and remaining balance after each issuance resulting from the one for thirty (1:30) reverse split that became effective February 17, 2012 and the Form S-1 registration statement that became effective February 14, 2012.

	Common Stock Issued and Outstanding	Total Issued and Outstanding	Common Stock Available for Issuance
Total common stock outstanding and available prior to the 1:30 reverse-split	219,432,472	219,432,472	105,567,528
Total common stock outstanding and available after the reverse-split declared effective February 14, 2012	7,314,416	7,314,416	317,685,584
Total of all fractional shares that were rounded up as a result of the reverse-split	97	7,314,513	317,685,487
Common stock sold for \$10,000,000 under our S-1 registration statement that the SEC declared effective February 14, 2012	2,222,222	9,536,735	315,463,265
Common stock sold for \$1,499,999 under the over-allotment provision of our underwriter agreement that was included in our S-1 registration statement	333,333	9,870,068	315,129,932

In February 2012, the company utilized \$4.0 million to repay the principal balance in full under the \$4.0 million term note with the Business Credit division of Wells Fargo Capital Finance, Wells Fargo Bank, N.A. Also in February 2012, the company paid \$3.0 million toward the principal balance of the IED note payable associated with the acquisition of CUI, Inc. and \$35,000 was utilized to repay a convertible note payable owed to an officer of the company.

Our 2012 Private Placement

We received \$2,253,008 in net proceeds from our sale of 570,000 common shares. These 570,000 shares of common stock were included in an S-3 Registration Statement that the Company filed April 13, 2012 that became effective upon filing. Net proceeds from this sale represent the amount received by CUI Global after paying \$312,017 expenses of sale. The net proceeds from this sale were used for general corporate purposes.

Our 2013 Public Offering

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 the sale of the over-allotment shares. Net proceeds from the April 2013 common stock sales pursuant to the S-1 registration statement and over-allotment provision were \$45,135,280 after paying costs of \$3,164,720 which were recorded as reductions of additional paid in capital.

Use of Proceeds

Effective April 1, 2013, CUI Global closed on a share purchase agreement to acquire 100% of the equity interest in Orbital Gas Systems Limited, a company organized under the laws of England and Wales ("Orbital"), from Orbital's sole shareholder. The Company completed the strategic acquisition of Orbital for 17 million British Pounds Sterling, approximately \$26.2 million based on the actual exchange rate for British Pounds Sterling to U.S. dollars achieved on the date of funding April 18, 2013.

In May 2013, the Company paid to IED, Inc. \$2,000,000 in principal, thereby reducing the balance of the note payable to \$5,303,683. In conjunction with this payment, 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.

The balance of the net proceeds are intended to be used to fund working capital, short term investments, capital expenditures and other general corporate purposes.

Market Value

The Company's Common Stock is traded on the NASDAQ Stock Market under the trading symbol "CUI". The following table sets forth, the high and low bid prices of our Common Stock for the four quarters of 2013 and 2014 as reported by the National Quotation Bureau and reflect inter-dealer prices without retail mark-up, markdown or

commission and may not represent actual transactions.

Quarter	High Bid	Low Bid
2013		
First Quarter	\$ 6.00	\$ 4.80
Second Quarter	\$ 6.15	\$ 4.60
Third Quarter	\$ 6.40	\$ 5.00
Fourth Quarter	\$ 6.45	\$ 5.05
2014		
First Quarter	\$ 11.34	\$ 6.26
Second Quarter	\$ 10.43	\$ 6.43
Third Quarter	\$ 8.37	\$ 6.04
Fourth Quarter	\$ 8.64	\$ 5.73

Dividend Policy

The Company has never paid cash dividends on its Common Stock and the Company does not expect to pay dividends in the foreseeable future.

We currently expect to retain future earnings to finance the growth and development of our business. The timing, amount and form of future dividends, if any, will depend, among other things, on our future results of operations and cash flows; our general financial condition and future prospects; our capital requirements and surplus; contractual restrictions; the amount of distributions, if any, received by us from our subsidiaries; and other factors deemed relevant by our board of directors. Any future dividends on our common shares would be declared by and subject to the discretion of our board of directors.

Common Stock Reserved for Future Issuances

Set forth below is a summary of the outstanding securities, transactions and agreements, which relate to 998,432 shares of common stock the Company is required to reserve for potential future issuances.

1. 998,432 common shares reserved for outstanding options issued under our Equity Compensation Plans  
 As of December 31, 2014, there were reserved for issuance an aggregate of 998,432 shares of common stock for options outstanding under the Company's 2008 Equity Incentive Plan and the Company's 2009 Equity Incentive Plan (Executive).

2. 1,525,862 common shares authorized for issuance under our Equity Compensation Plans  
 As of December 31, 2014, the Company has 1,525,862 common shares authorized and available for issuance under the Company option plans.

The approximate 857,851 shares of Common Stock held by existing shareholders as of December 31, 2014 that are "restricted" within the meaning of Rule 144 adopted under the Securities Act (the "Restricted Shares"), may not be sold unless they are registered under the Securities Act or sold pursuant to an exemption from registration, such as the exemption provided by Rule 144 promulgated under the Securities Act. The Restricted Shares were issued and sold by us in private transactions in reliance upon exemptions from registration under the Securities Act and may only be sold in accordance with the provisions of Rule 144 of the Securities Act, unless otherwise registered under the Securities Act.

Other than as described herein, as of the date of this report, there are currently no plans, arrangements, commitments or understandings for the issuance of additional shares of Common Stock.

Employee Equity Incentive Plans

At December 31, 2014, the Company had outstanding the following equity compensation plan information:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	44,917	\$ 5.51	1,324,501
Equity compensation plans not approved by security holders	953,515	\$ 6.38	201,361
	998,432	\$ 6.34	1,525,862

Equity Compensation Plans Approved by Shareholders

On May 16, 2008 the Company's Board of Directors adopted the 2008 Equity Incentive Plan and authorized 1,500,000 shares of Common Stock to fund the Plan. At the 2008 Annual Meeting of Shareholders the Equity Incentive Plan was approved by the Company shareholders. At the 2009 Annual Meeting of Shareholders 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 Plan 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 Plan provides for the issuance of incentive stock options (ISOs) and Non Statutory Options (NSOs) to employees, directors and independent contractors of the Company. The Board shall determine the exercise price per share in the case of an ISO at the time an option is granted and such price shall be not less than the fair market value or 110% of fair market value in the case of a ten percent or greater stockholder. In the case of an NSO, the exercise price shall not be less than the fair market value of one share of stock on the date the option is granted. Unless otherwise determined by the Board, ISOs and NSOs granted under the both plans have a maximum duration of 10 years.

*Equity Compensation Plans Not Approved by Shareholders*

In January 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 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.

October 11, 2010, the Board of Directors authorized an additional 3,060,382 options under the 2009 Equity Incentive Plan (Executive) that are to be granted at post-reverse split quantities. On October 11, 2010, the following were granted: 3,300 to each director of the Company with an exercise price of \$9.00 per share and vesting one year after the October 11, 2010 date of grant. Two employees who also serve as directors received 52,277 bonus options as employees and 29,936 stock options were granted to corporate officers and employees. The employee bonus options have an exercise price of \$9.00 per share and vest over four years, 25% at year one and thereafter in equal monthly installments.

The 2009 Equity Incentive Plan (Executive) provides for the issuance of stock 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 2009 Plan provides for the issuance of Incentive Non Statutory Options. 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.

The Company has outstanding at December 31, 2014, the following options issued under equity compensation plans not approved by security holders:

During 2009, the Company issued under the 2009 Equity Incentive Plan (Executive) to officers and directors options to purchase restricted common stock at \$7.50 per share as follows: 85,009 fully vested options, 28,800 options that vest over four years, 25% at year one and thereafter in equal monthly installments; and 19,800 options that fully vested one year after the date of grant. Of these 2009 grants, 71,196 remain outstanding and fully vested at December 31, 2014.

During 2010, the Company issued under the 2009 Equity Incentive Plan (Executive) to officers and directors options to purchase restricted common stock at \$9.00 per share as follows: 19,800 options that vest one year after the October 11, 2010 grant date and 82,213 options that vest over four years, 25% at one year after the grant date, thereafter in equally monthly installments. Of these 2010 grants, 54,621 remain outstanding and fully vested at December 31, 2014.

During 2012 the Company granted under the 2009 Equity Incentive Plan (Executive) to officers and directors options to purchase restricted common stock at \$4.56 per share. as follows: 19,800 options that vest one year after the April 16, 2012 grant date; 64,875 options that vest over four years, 25% at one year after the grant date, thereafter in equal monthly installments, and 330,000 options to purchase restricted common stock at \$6.00 per share were granted to an officer that vest in equal monthly installments over the course of forty-eight consecutive months beginning September 2012. Of these 2012 grants, 253,602 remain outstanding and fully vested and 139,959 are unvested at December 31, 2014.



During 2013 the Company issued under the 2009 Equity Incentive Plan (Executive) to three officers three hundred fifty thousand (350,000) options to purchase restricted common stock at \$6.25 per share as follows: one third that vest one year after the June 24, 2013 grant date, one third that vest two years after the grant date and the balance that vest three years after the grant date. At December 31, 2014, 175,000 of these 2013 granted options are outstanding and fully vested and 175,000 are unvested.

During 2014 the Company issued under the 2009 Equity Incentive Plan (Executive) to each board member who is not an employee of the Company options to purchase ten thousand (10,000) shares of restricted common stock at a price of \$6.92 per share that vest in twelve equal installments during 2014. The Company issued to two board members, who chose to receive a portion of their annual board compensation in the form of equity options to purchase forty two thousand eight hundred ninety (42,890) restricted shares of common stock at a price of \$6.92 per share. The Company granted to each of the two newly elected directors, options to purchase seven thousand five hundred (7,500) restricted shares of common stock at a price of \$8.15 per share that vest August 31, 2015. Of these 2014 options grants, 74,138 options are outstanding and fully vested and 10,000 are unvested at December 31, 2014.

The description of the Company's capital stock does not purport to be complete and is subject to and qualified by its Articles of Incorporation, Bylaws, amendments thereto and by the provisions of applicable Colorado law. The Company's transfer agent is Computershare Trust Company, Inc., 350 Indiana Street, Suite 800, Golden, Colorado 80401.

## **RECENT SALES OF UNREGISTERED SECURITIES**

Following is a list of all securities we sold within the past three years which were not registered under the Securities Act. The Company relied on Section 4(2) of the Securities Act of 1933 as the basis for an exemption from registration for the following issuances.

### **2012 Sales of Unregistered Securities**

#### *Common Stock Issued During 2012*

Effective February 17, 2012, the issued and outstanding shares of the Company's \$0.001 par value common stock were reverse split at a ratio of one for thirty (1:30). All fractional shares resulting from the reverse split were rounded up to the next full numbers. As a result of the rounding up effect, 97 additional shares of common stock were issued that are included in the S-1 registration statement. The company received no monetary consideration for these 97 shares.

March 16, 2012, 10,071 shares of common stock were issued in relation to a warrant exercise. The company received \$3,021 from this transaction.

March 20, 2012, 15,000 shares of common stock were issued in consideration for strategic investor marketing services rendered for the benefit of the company. A \$69,450 consulting expense was recorded in relation to this transaction based on the fair market value of the stock on the date of grant.

Between April 4-12, 2012, 57,000 shares of common stock were issued in relation to common stock bonuses granted to officers and employees. 50,750 of these common shares were issued to three officers with a fair value of \$243,600 in accordance with their employment agreement bonus provisions. Two employees were awarded a total of 6,250 common shares with a fair value total of \$30,000.

On April 12, 2012, a holder of 2,500 shares of convertible Series A preferred stock completed the conversion of those shares into common shares. At the same time, the holder also converted an accrued preferred stock dividend of \$250 into common shares. For these conversions, the holder received 458 common shares based upon the conversion features of the convertible Series A preferred stock and accrued preferred stock dividends.

On May 4, 2012, a holder of 45,000 shares of convertible Series A preferred stock completed the conversion of those shares into common shares. At the same time, the holder also converted an accrued preferred stock dividend of \$4,500 into common shares. For these conversions, the holder received 8,645 common shares based upon the conversion features of the convertible Series A preferred stock and accrued preferred stock dividends.

On May 30, 2012, a holder of 3,043 shares of convertible Series A preferred stock completed the conversion of those shares into common shares. At the same time, the holder also converted an accrued preferred stock dividend of \$304 into common shares. For these conversions, the holder received 558 common shares based upon the conversion features of the convertible Series A preferred stock and accrued preferred stock dividends.

On June 21, 2012, 1,000 shares of common stock were issued to a consultant in consideration for strategic investor marketing services rendered for the benefit of the company and a \$6,450 consulting expense was recorded in relation to these issuances based on the fair market value of the stock on the date of the grant.

On June 28 and 29, July 2, 3, 16 and 27, 2012, 234,332 shares of common stock were sold to investors at \$4.50 per share pursuant to stock purchase agreements with proceeds of \$1,054,500 before related costs from this transaction of \$79,045 which were recorded as reductions of additional paid in capital.

On September 7, 2012, 1,052 shares of common stock were issued as a royalty to James McKenzie, majority owner of CUI, Inc. prior to the May 2008 asset acquisition by CUI Global. The shares were valued at \$6,638.

On September 27, 2012, 4,596 shares of common stock were issued to an employee as a bonus. These shares were expensed at a fair value of \$25,000 as of the date of issuance.

On each of April 5, May 7, June 6, July 2, August 1, September 7, October 1 and November 1, 2012, the company issued 13,500 shares of common stock to a consultant in consideration for strategic investor marketing services rendered for the benefit of the company. A \$569,970 consulting expense was recorded in relation to these issuances based on the fair market value of the stock on the dates of the grants.

On October 16, 2012, 2,500 shares of common stock were issued to a consultant in consideration for strategic investor marketing services rendered for the benefit of the company and a \$12,825 consulting expense was recorded in relation to these issuances based on the fair market value of the stock on the date of the grant.

Warrants and Options Issued During 2012

During April 2012, 84,675 options to purchase restricted common stock were issued to officers and directors under the 2009 Equity Incentive Plan (Executive) with the following assumptions: exercise price of \$4.56 per share, volatility of 90%, risk-free interest rate of 0.27% and a term of 2 years. The 19,800 director related options vest one year from the date of grant while the 64,875 officer options have a four year vesting period with 25% vesting one year from date of grant and monthly thereafter.

During May 2012, 11,167 fully vested options were granted to employees under the 2008 Equity Incentive Plan to purchase common stock with the following assumptions: exercise price of \$4.58 per share, volatility of 91%, risk-free interest rate of 0.27% and a term of 2 years.

During September 2012, 330,000 options to purchase common stock were issued to an officer under the 2009 Equity Incentive Plan (Executive) with the following assumptions: exercise price of \$6.00 per share, volatility of 84%, risk-free interest rate of 0.27% and a term of 2 years. The 330,000 options vest in equal monthly installments over the course of forty-eight consecutive months beginning September 2012.

Series A and Series B Convertible Preferred Stock Issued During 2012

There were no shares of Series A or Series B Convertible Preferred Stock issued during 2012.

Series C Preferred Stock Issued During 2012

There were no shares of Series C Convertible Preferred Stock issued during 2012.

**2013 Sales of Unregistered Securities**

Common Stock Issued During 2013

During June 2013, 16,305 shares of common stock were issued in relation to common stock bonuses granted to twenty-two employees with a fair value of \$91,348 as of the grant date.

On June 13, 2013, 4,578 shares of common stock were issued in accordance with a royalty agreement on the GasPT2 products to James McKenzie, majority owner of CUI, Inc. prior to the May 2008 asset acquisition by CUI Global. The fair value of these shares as of the date of grant was \$24,813.



On December 27, 2013, 2,500 shares of common stock were issued to a consultant for services. These shares were expensed at a fair value of \$15,399 as of the date of grant.

Warrants and Options Issued During 2013

June 24, 2013 options to purchase 350,000 shares of restricted common stock at a price of \$6.25 per share were granted to three officers under the 2009 Equity Incentive Plan (Executive) with the following assumptions: exercise price of \$6.25 per share, volatility of 44%, risk-free interest rate of 0.73% and a term of 5 years. These options vest: one third per year beginning at one year from the date of grant.

## 2014 Sales of Unregistered Securities

### Common Stock Issued During 2014

During January, February, March, April and November 31,850 shares of common stock were issued to three employees, one officer and one former director through cashless option exercises. The Company received \$0 for these issuances.

During February, March, August and December 131,365 shares of common stock were issued to four consultants, one of whom was a former board member, as consideration for services. These shares were expensed at a fair value \$932,250.

During March and December, 4,555 shares of common stock were issued as a royalty to James McKenzie, majority owner of CUI, Inc. prior to the May 2008 asset acquisition by CUI Global. The fair value of these shares as of the date of grant shares was \$31,447.

On June 25, 2014, 5,624 shares of common stock were issued to an employee as a bonus. These shares were expensed at a fair value of \$50,000 as of the date of grant.

On August 31, 6,435 shares of common stock were issued to three directors as director compensation. These shares were expensed at a fair value of \$47,684 as of the grant date.

On December 29, 1,248 shares of common stock were issued as 2014 fourth quarter board compensation to a board member. The shares were expensed at a fair value of \$9,750 as of the grant date.

### Options Issued During 2014

January 2 the Company issued as equity compensation under the 2009 Equity Incentive Plan (Executive) to each board member who is not an employee of the Company options to purchase ten thousand (10,000) shares of restricted common stock with the following assumptions: exercise price of \$6.92 per share, volatility of 34%, risk-free interest rate of 1.72% and a term of 5 years. These options vest: in twelve equal installments during 2014.

January 3 the Company issued under the 2009 Equity Incentive Plan (Executive) to two board members, who chose to receive a portion of their annual cash board compensation in the form of equity options to purchase forty two thousand

eight hundred ninety (42,890) restricted shares of common stock with the following assumptions: exercise price of \$6.92 per share, volatility of 34%, risk-free interest rate of 1.72% and a term of 5 years. These options vested over six months during 2014.

August 31 the Company issued fully vested sign-on bonus option grants to each of two newly elected directors, to each purchase seven thousand five hundred (7,500) restricted shares of common stock at a price of \$8.15 per share with the following assumptions: exercise price of \$8.15 per share, volatility of 61%, risk-free interest rate of 1.63% and a term of 5 years.

**Note:** Effective September 17, 2012, the Board of Directors passed a resolution eliminating and discontinuing all Series A and B Convertible Preferred and Series C Preferred stock. As of December 31, 2014, no shares of Series A and Series B Convertible Preferred or Series C Preferred Stock are issued and outstanding.

#### **Shares Eligible for Future Sale**

As of December 31, 2014, we had outstanding 20,747,740 shares of Common Stock. Of these shares, 19,889,889 shares are freely tradable without restriction or limitation under the Securities Act.

The 857,851 shares of Common Stock held by existing shareholders as of December 31, 2014 that are "restricted" within the meaning of Rule 144 adopted under the Securities Act (the "Restricted Shares"), may not be sold unless they are registered under the Securities Act or sold pursuant to an exemption from registration, such as the exemption provided by Rule 144 promulgated under the Securities Act. The Restricted Shares were issued and sold by us in private transactions in reliance upon exemptions from registration under the Securities Act.

## **Item 6. Selected Financial Data**

The following tables set forth selected consolidated financial data as of the dates and for the periods presented. The selected consolidated balance sheet data as of December 31, 2014 and 2013 and the selected consolidated statement of operations data for the years ended December 31, 2014, 2013, and 2012 have been derived from our audited consolidated financial statements and related notes that we have included elsewhere in this filing. The selected consolidated balance sheet data as of December 31, 2012, 2011, and 2010 and the selected consolidated statement of operations data for the years ended December 31, 2011 and 2010 have been derived from audited consolidated financial statements that are not presented in this filing. The timing of acquisitions and divestitures completed during the years presented affects the comparability of the selected financial data. The selected financial data excludes the operations as well as assets and liabilities of our discontinued operations from our consolidated financial statements.

The selected historical consolidated financial data as of any date and for any period are not necessarily indicative of the results that may be achieved as of any future date or for any future period. You should read the following selected historical financial data in conjunction with the more detailed information contained in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes that we have presented elsewhere in this filing.

For information regarding the Company's acquisitions, see Note 4, ACQUISITION.

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
Selected Statements of Operations Data:					
Total revenues	\$76,045,217	\$60,651,665	\$41,084,589	\$38,938,326	\$37,575,157
Cost of revenues	47,494,283	37,147,182	25,958,730	24,133,073	22,727,210
Selling, general and administrative, depreciation and amortization	30,258,823	22,509,313	15,970,536	13,347,853	11,991,976
Research and development	1,168,858	890,461	791,332	716,321	740,396
Bad debt	(39,187 )	211,546	65,763	82,192	64,684
Impairment of assets (a)	32,355	-	278,428	-	3,524,141
Other income (expense)	(464 )	165,800	76,502	14,979	(71,440 )
Derivative expense (b)	(171,880 )	(427,818 )	-	-	-
Gain on sale of technology rights (c)	-	-	-	143,636	-
Impairment on note receivable (d)	-	(502,194 )	-	-	-
Earnings from equity investment	49,418	24,766	59,623	41,472	78,074
Interest expense - amortization of debt offering costs and debt discount	-	(42,777 )	(73,333 )	(334,747 )	(3,859,342 )
Interest expense	(508,123 )	(442,849 )	(575,199 )	(918,189 )	(1,151,617 )
(Loss) before taxes	(3,527,452 )	(1,341,557 )	(2,492,607 )	(393,962 )	(6,477,575 )
Provision (benefit) for taxes	(726,174 )	(398,444 )	33,714	29,810	111,138
Consolidated (loss) from continuing operations	\$(2,801,278 )	\$(943,113 )	\$(2,526,321 )	\$(423,772 )	\$(6,588,713 )
Basic and diluted (loss) per common share	\$(0.14 )	\$(0.05 )	\$(0.25 )	\$(0.06 )	\$(1.05 )

	For the Years Ended December 31,				
	2014	2013 (e)	2012 (e)	2011 (e)	2010 (e)
Selected Balance Sheet Data:					
Cash and cash equivalents	\$11,704,361	\$16,575,508	\$3,039,840	\$176,775	\$373,823
Short term investments	11,159,765	10,868,961	-	-	-
Total current assets (excluding held for sale)	43,125,964	44,683,646	13,228,556	8,117,628	8,489,646
Total assets (excluding held for sale)	93,053,873	99,159,591	36,723,461	31,978,491	32,687,566
Total current liabilities (excluding held for sale)	12,354,961	15,295,536	4,657,345	9,077,805	9,967,199
Total long term liabilities (excluding held for sale)	14,728,576	15,305,998	10,104,214	13,104,214	13,481,091
Total liabilities (excluding held for sale)	27,083,537	30,601,534	14,761,559	22,182,019	23,448,290
Stockholders' equity	65,970,336	68,558,057	21,961,902	9,796,472	9,498,589
Preferred shares outstanding	-	-	-	50,543	50,543
Common shares outstanding	20,747,740	20,566,663	10,883,280	7,314,513	7,136,523

During the year ended December 31, 2014, management determined that an impairment of \$32,355 was necessary related to intangible, technology rights for a product line that was determined to have a shortened expected life.

- (a) During the year ended December 31, 2012, management determined that an impairment of \$278,428 related to intangible, trademark and trade name V-Infinity was necessary. During the year ended December 31, 2010, management determined impairments of \$3,105,956 related to technology rights and \$418,185 related to patents were necessary.

- (b) In October 2013, in conjunction with the financing of the purchase of the headquarters facility, the purchase was funded, in part, by a promissory note payable to Wells Fargo Bank in the amount of \$3,693,750 plus interest at the rate of 2% above LIBOR, payable over ten years. It was secured by a deed of trust on the purchased property which was executed by CUI Properties, LLC and guaranteed by CUI Global, Inc. In conjunction with the purchase, the parties to this transaction entered into a Swap Transaction Confirmation agreement effective October 1, 2013 incorporating the terms and definitions of the International Swaps and Derivatives Association, Inc. (ISDA) that effectively maximizes the annual interest rate at 6.27%. The Company recorded an expense in 2014 and 2013 of \$171,880 and \$427,818, respectively.

During the year ended December 31, 2011, in an effort to concentrate our business focus on our core product (c)development and marketing, we conveyed our WayCool and WayFast patent portfolio to Olantra Fund X LLC for a cash payment of \$500,000 and recognized a gain on sale of technology rights of \$143,636.

(d) During 2013, it was determined that the note receivable related to the divestment of Comex Electronics had become impaired, at which time the Company recorded an impairment of \$502,194.

Long term and total liabilities and stockholders' equity have been revised to reflect an immaterial adjustment of (e)deferred tax temporary differences and stockholders' equity (see Summary of Significant Accounting Policies, Adjustment of Prior Period Balances and Note 15. Income Taxes).

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### *Important Note about Forward-Looking Statements*

The following discussion and analysis should be read in conjunction with our audited consolidated financial statements as of December 31, 2014 and notes thereto included in this document and our un-audited 10-Q filings for the first three quarters of 2014 and the notes thereto. In addition to historical information, the following discussion and other parts of this Form 10-K contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to factors discussed elsewhere in this Form 10-K.

The statements that are not historical constitute "forward-looking statements". Said forward-looking statements involve risks and uncertainties that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements, express or implied by such forward-looking statements. These forward-looking statements are identified by their use of such terms and phrases as "expects", "intends", "goals", "estimates", "projects", "plans", "anticipates", "should", "future", "believes", and "scheduled".

The variables which may cause differences include, but are not limited to, the following: general economic and business conditions; competition; success of operating initiatives; operating costs; advertising and promotional efforts; the existence or absence of adverse publicity; changes in business strategy or development plans; the ability to retain management; availability, terms and deployment of capital; business abilities and judgment of personnel; availability of qualified personnel; labor and employment benefit costs; availability and costs of raw materials and supplies; and changes in, or failure to comply with various government regulations. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate; therefore, there can be no assurance that the forward-looking statements included in this Form 10-K will prove to be accurate.

In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any person that the objectives and expectations of the Company will be achieved.

## **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.

## **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.

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.

### *CUI, Inc. and CUI Japan - Subsidiaries*

CUI, Inc. is based in Tualatin, Oregon and CUI Japan is based in Tokyo, Japan. Both CUI, Inc. and CUI Japan are providers of electro-mechanical components including power supplies, transformers, converters, connectors and industrial controls for Original Equipment Manufacturers (OEMs). 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, 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 and CUI Japan define their product offering into two categories: **components** including connectors, speakers, buzzers, test and measurement devices, and control solutions including encoders and sensors; and **power solutions** which include Novum and Solus. These offerings provide a technology architecture that addresses power and related accessories to industries as broadly ranging as consumer electronics, medical and defense.

Orbital Gas Systems, Ltd. - Subsidiaries

Effective April 1, 2013, CUI Global closed on a share purchase agreement to acquire 100% of the equity interest in Orbital Gas Systems Limited, a company organized under the laws of England and Wales (“Orbital”), from Orbital’s sole shareholder.

Orbital is the largest natural gas systems integrator in the U.K. Orbital has operated successfully in the natural gas industry for over 25 years. In addition, Orbital is a leading provider of natural gas infrastructure and high-tech solutions to National Grid, the national gas transmission company in the U.K. and one of the most respected specialist gas engineering companies in the world. Orbital has developed its portfolio of products, services and resources to offer a diverse range of personalized gas engineering solutions to the gas utilities, power generation, emissions, manufacturing and automotive industries. Moreover, its proprietary VE® Technology enhances the capability and speed of our GasPT2 Technology.

**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. The company also ensures, through specific provisions and agreements, that all licensed technology is fully patent-protected in the US and internationally by the Licensor, where applicable.

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

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 Company estimates the future cash flows expected to result from the use of the asset and its

eventual disposition. 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. During the year ended December 31, 2014, management identified an indefinite lived intangible technology rights asset for which its expected life was reduced and an impairment of \$32,355 was recorded. As of December 31, 2014, management has determined that no other impairment of goodwill or other long-lived assets exists. During the year ended December 31, 2013, management did record an impairment of \$502,194 for the remaining balance of a note receivable from the divestment of Comex Electronics.

### Stock-Based Compensation

The Company accounts for stock based compensation using FASB Accounting Standards Codification No. 718 (“FASB ASC 718”), “Compensation – Stock Compensation”. FASB Codification No. 718 requires the fair value of all stock-based employee compensation awarded to employees to be recorded as an expense over the related vesting period. Employee stock compensation is recorded at fair value using the Black Scholes Pricing Model. The underlying assumptions used in the Black Scholes Pricing Model by the Company are taken from publicly available sources including: (1) volatility which is calculated using historic stock price information from online finance websites such as Google Finance and Yahoo Finance; (2) the stock price on the date of grant is obtained from online finance websites such as those previously noted; (3) the appropriate discount rates are obtained from the United States Federal Reserve economic research; and (4) data website and other inputs are determined based on previous experience and related estimates. With regards to the January 2014 options grant, the Company determined expected volatility through the use of the volatility for the most recent twelve month period historical share prices for CUI Global best reflected the expected volatility for determining the fair value of our stock options due to the significant changes to the Company, including the 2013 equity raise, acquisition of Orbital, increased institutional ownership and other such factors that have impacted volatility. For the August 2014 options grant, the Company extended the volatility historical period to twenty months as the Company had remained consistent with regards to the aforementioned factors. The Company may continue to change its expected volatility factor to include a longer historical period, once the Company has remained consistent with regards to the aforementioned factors.

### Valuation of Non-Cash Capital Stock Issuances

The Company values its stock transactions based upon the fair value of the equity instruments. Various methods can be used to determine the fair value of the equity instrument. The Company may use the fair value of the consideration received, the quoted market price of the stock or a contemporaneous cash sale of the common or preferred stock. Each of these methods may produce a different result. Management uses the method it determines most appropriately reflects the stock transaction. If a different method was used it could impact the expense and equity stock accounts.

### Revenue Recognition

Product revenue is recognized in the period when persuasive evidence of an arrangement with a customer exists, the products are shipped and title has transferred to the customer, the price is fixed or determinable, and collection is reasonably assured. The Company sells to distributors pursuant to distribution agreements that have certain terms and conditions such as the right of return and price protection which inhibit revenue recognition unless they can be reasonably estimated as we cannot assert the price is fixed and determinable and estimate returns. For one distributor that comprises 30% of revenue, we have such history and ability to estimate and therefore recognized revenue upon sale to the distributor and record a corresponding reserve for the estimated returns. For a different distributor arrangement that represents 4% of revenue, we do not have sufficient history to reasonably estimate price protection reserve and the right of return and accordingly defer revenue and the related costs until such time as the distributor resells the product.



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

Revenues from warranty and maintenance activities are recognized ratably over the term of the warranty and maintenance period and the unrecognized portion is recorded as deferred revenue.

## **Liquidity and Capital Resources**

### General

As of December 31, 2014, CUI Global held Cash and cash equivalents of \$11,704,361 and investments of \$11,159,765. Operations, other intangible assets, investments, and equipment, have been funded through cash on hand during the year ended December 31, 2014.

### Cash Provided by Operations

Operating requirements generated negative cash flow from operations of approximately \$3.1 million during the year ended December 31, 2014 and positive cash flow from operations of approximately \$1.7 million during the year ended December 31, 2013, versus negative cash flow from operations of approximately \$1.8 million for the same period 2012.

The 2014 change in cash used by operations is primarily the result of the increased net loss during the year ended December 31, 2014 of \$2.8 million of which significant non-cash items impacted profitability. A significant portion of this increased net loss is associated with equity compensation issued in the form of stock and options grants to strategic consultants, employees and directors for performance as well as vesting of granted stock options totaling approximately \$1.7 million, an increase of approximately \$1.1 million as compared to the year ended December 31, 2013. Additionally, with the full year amortization of the acquisition related intangible assets acquired with Orbital Gas Systems in 2013, the amortization of intangible assets increased \$0.9 million while the deferred income taxes benefit decreased \$0.1 million. At the same time as these costs increased, the Company increased revenues \$15.4 million and increased gross profits \$5.0 million, which contributed to covering operating requirements. Of this increase, the Gas segment increased approximately \$9.5 million related to having Orbital Gas Systems for the full year in 2014 as well as general sales growth for this segment. The Power and Electro-Mechanical segment increased

revenues approximately \$5.9 million related to continued market penetration through both new and existing customers, including growth within the distribution sales channels.

Further impacting the cash used in operations in 2014 was the significant increase in trade accounts receivables of approximately \$3.3 million associated primarily with the increased fourth quarter revenues and the related sales terms on those deliveries. During 2014, the Company experienced a decrease of approximately \$0.6 million to costs in excess of billings associated with progress on the related projects, increased prepaid expenses of \$1.0 million associated primarily with prepaid royalties increases of \$0.4 million and increased prepaid taxes of \$0.4 million. Unearned revenue increased \$0.5 million associated with the timing of related customer orders and the terms granted. Billings in excess decreased \$2.9 million during the year related to progress on gas segment projects.

The 2013 change in cash provided by operations is primarily the result of the net loss during the year ended December 31, 2013 of \$0.9 million of which significant non-cash items impacted profitability. Exclusive of those non-cash items, the net result for the year ended December 31, 2013 was positive approximately \$3.3 million. The improvement in the net loss, during the year ended December 31, 2013 as compared with 2012 is associated with the increase in revenues and related gross profits, both from the addition of Orbital Gas Systems Limited in April 2013 which contributed approximately \$17.5 million of revenues during the last three quarters of 2013 and the growth in the Power and Electro-Mechanical segment of CUI, Inc. and CUI Japan which had increased revenues over the prior year of approximately \$2.1 million. The increase in revenues through the Power and Electro-Mechanical segment is associated with growth in revenues through existing customers as well as to new customers, including Future Electronics which was added as a distribution channel during January 2013. The growth in revenues and related gross profits was offset by the continued expenses to reach new customers, promote new product lines including Novum, Solus and GasPT2, increased advertising costs for company products, new product introductions, costs associated with the acquisition and integration of Orbital Gas Systems as well as the overall growth in expenses of the business in relation to the growth in revenues.

Additionally in 2013, a factor that impacted the cash provided by operations include decreased receivables of approximately \$1.6 million associated primarily with CUI Inc. and CUI Japan associated with the timing of deliveries and related sales terms. Additionally, the cash flow from operations was impacted by an approximately \$1.7 million increase in inventory which is primarily a function of product held for scheduled customer orders. An increase in prepaid expenses and other current assets largely associated with prepaid license fees for future sales of the GasPT2 products and prepaid insurance premiums. Further, a payment of \$1.8 million was issued toward an accrued obligation for services provided to Orbital. The decrease in accrued taxes payable is primarily associated with payment of value-add-tax in the UK of \$0.8 million. Unearned revenue and billings in excess of costs increased during the period, these are associated with several customer prepayments and deferred revenues including on certain power and electro-mechanical product sales through distribution.

The negative cash flow from operations during the year ended December 31, 2012 is primarily the result of a larger net loss attributable to CUI Global, Inc. in 2012 of \$2.5 million which included increased sales related travel for CUI, Inc. to manage third party sales representatives, reach new customers, maintain existing customers, and promote new product lines including Novum and Solus, professional fees expenses related to engineering support, testing fees and travel expenses related to the GasPT2 product as the Company increased the GasPT2 exposure to customers in North America, parts of Europe and elsewhere, increased expenses associated with being a public company such as filing services and fees, professional fees, and listing fees among others, increased advertising costs for company products, increased commissions to third party sales representatives related to the increase in sales, increased expenses associated with the growth in operations at CUI Japan, operating costs associated with the newer technologies Novum and Solus and the overall growth of the business in relation to revenues. Additional factors that impacted the cash from operations in 2012 include increases in trade accounts receivable and inventory of \$1.3 million and \$1.3 million, respectively. The increase in trade accounts receivable is largely attributed to the increased revenues in the fourth quarter of 2012 of \$11.9 million. The increase in inventory is primarily related to the inventory on hand associated with the increased back log of customer orders at December 31, 2012 of \$14.1 million and increased inventory of GasPT2 units on hand at year end to prevent potential shortages for future customer orders associated with manufacturing and calibration lead times.





During 2014, 2013 and 2012, the Company used stock and warrants as a form of payment to certain vendors, consultants, licensors and employees. For 2014, 2013 and 2012, respectively, the Company issued a total of \$1.7 million, \$0.5 million and \$1.2 million for compensation, services and royalties expense including amortization of deferred compensation related to equity given, or to be given, to employees and consultants for services provided. The increase in 2014 as compared to 2013 is primarily attributable to \$0.8 million of stock compensation issued to consultants for strategic consulting services regarding the testing and demonstration of the Gas segment technologies and related strategic customer relations. Additional increases in equity compensation are related primarily to the equity compensation expenses associated with director and employee stock grants for performance and vesting expenses associated with options grants. The decrease in 2013 as compared to 2012 is attributable to decreases in stock compensation expense for stock issued to consultants for strategic investor marketing services and employee stock compensation, offset by an increase in stock compensation expense for stock issued to a consultant for engineering and customer services provided and an increase in options related expenses for options granted to employees that expense over their associated vesting life. The increase in 2012 is attributable to increased stock compensation expense for stock issued to consultants for strategic investor marketing services, employee stock compensation and options expenses.

During 2014, CUI Global recorded two significant non-cash entries, \$0.2 million for unrealized loss on derivative and \$0.7 million deferred income taxes benefit. During 2013, CUI Global recorded three significant non-cash entries - \$0.4 million for derivative expense, \$0.8 million deferred income taxes benefit, and \$0.5 million impairment of note receivable. During 2012, the Company recorded two significant non-cash entries - \$0.1 million of non-cash interest expense, including amortization of debt offering costs and \$0.3 million for the impairment of intangible, trademark and trade name V-Infinity. The intangible, trademark and trade name V-Infinity was determined to have a finite life and an impaired value during 2012. 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.

As the Company focuses on technology development and product line additions during 2015, 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 years ended 2014, 2013 and 2012, CUI Global invested \$1.2 million, \$2.5 million and \$0.7 million, respectively, in fixed assets. These investments typically include additions to equipment and software for engineering and research and development, tooling for manufacturing, furniture, regular computer equipment and software upgrades for office personnel, facilities improvements and other fixed assets as needed for operations. The 2013 investments in property and equipment included the down payment toward the September 2013 acquisition of the headquarters facility, which is discussed below in Investing Activities – related party activity. The Company anticipates further investment in fixed assets during 2015 in support of its on-going business and continued development of product lines and technologies.



CUI Global invested \$3,667, \$414,700 and \$80,343 in other intangible assets during 2014, 2013 and 2012, respectively. The 2014 investment of \$3,667 is associated with the new AMP group website. \$412,200 of the 2013 investments are related to the July 2013 acquisition of the exclusive worldwide intellectual property license to the VE probe technology, including both pipeline sampling and thermowell applications. The licenses terms include ongoing minimum royalties during the term of the exclusive agreement. The 2012 investments were related to the new CUI, Inc. website. The Company's websites are utilized to communicate with our investors, customers, vendors and other stakeholders. The Company expects its investment in other intangible assets may continue throughout 2015.

During 2014, 2013 and 2012, CUI Global had proceeds from notes receivable of \$0, \$33,451, and \$46,808, respectively.

The Company invested \$12,766,667 in short term investments classified as held to maturity and received \$12,400,744 from maturities of these investments during the year ended December 31, 2014. The Company invested \$15,390,437 in short term investments classified as held to maturity and received \$4,498,744 from maturities of these investments during the year ended December 31, 2013. These investments included money market securities, certificates of deposit, commercial paper and corporate notes. There were no funds invested in short term investments classified as held to maturity during the year ended December 31, 2012. Investments made by the Company are subject to an investment policy which limits our risk of loss exposure by setting appropriate credit quality requirements for investments held, limiting maturities to be 1 year or less, and also setting appropriate concentration levels to prevent concentrations. This includes a requirement that no more than 3% of the portfolio, or \$500,000, whichever is greater, may be invested in one particular issue.

Effective April 1, 2013, CUI Global closed on a share purchase agreement to acquire 100% of the equity interest in Orbital Gas Systems Limited, a company organized under the laws of England and Wales ("Orbital"), from Orbital's sole shareholder. The purchase price for the acquisition of Orbital was £17,000,000 British pounds sterling ("£"), subject to purchase price adjustments, 100% of the purchase price was paid in cash. To secure indemnification obligations, 5.0% of the purchase price, or £850,000, was held in escrow through December 1, 2013. The purchase price was \$26,205,500, based on the actual exchange rate for British pound sterling to U.S. dollars achieved on April 18, 2013 for the acquisition of Orbital. The cash paid upon acquisition, net of cash received was \$17,709,507. As a result of the acquisition of Orbital, CUI Global at December 31, 2014 had Goodwill of \$8,866,411, intangible, customer lists \$7,234,806, intangible, order backlog \$3,460,530, intangible, technology-based asset know how \$2,930,888, intangible, technology based asset software \$635,259 and intangible, trade name \$1,860,734.

#### Investing Activities- related party activity

On September 27, 2013, our wholly owned subsidiary, CUI Properties, LLC, signed closing documents on the purchase of our Tualatin, Oregon corporate office real estate. The purchase price for this acquisition was \$5,050,000. As part of this transaction, the Company had a third party appraisal performed on the value of the facility acquired to ensure a fair price was obtained in the acquisition. The purchase was funded, in part, by a promissory note payable to Wells Fargo Bank in the amount of \$3,693,750 with the remaining purchase price being paid from cash on

hand.

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### Financing Activities

See, above, the section entitled Recent Sales of Unregistered Securities for a complete listing of all securities transactions.

During the year ended December 31, 2014, the Company issued payments of \$0.1 million against capital leases of motor vehicles and equipment and \$0.1 million against the mortgage note payable.

During the year ended December 31, 2013, the Company received net proceeds after related expenses of \$45.1 million from the registered offering sale of 9,660,000 shares of common stock at \$5.00 per share, made payments of \$459,448 against the line of credit, \$2.0 million of payments were made against the related party note payable, \$12,694 of payments against the mortgage note payable and payments of \$68,050 were made against capital leases of motor vehicles and equipment at Orbital. For further discussion of the proceeds from the sale of common stock in 2013, see Note 12. STOCKHOLDERS' EQUITY.

During the year ended December 31, 2012, the Company received proceeds of \$13.5 million from the sales of common stock, net of offering costs and the exercise of warrants, \$1.1 million of payments were made against the demand notes payable, \$4.0 million of payments were made against the term note with the Business Credit division of Wells Fargo Capital Finance, Wells Fargo Bank, N.A., \$3.0 million was paid against the principal balance of the IED related party note payable associated with the acquisition of CUI, Inc., and \$35,000 was utilized to repay a related party convertible note payable owed to an officer of the Company. For further discussion of the proceeds from the sale of common stock in 2012, see Note 12. STOCKHOLDERS' EQUITY.

CUI Global may raise additional capital needed to fund the further development and marketing of its products as well as payment of its debt obligations.

### Financing activities – related party activity

During 2012, a short term convertible loan from July 2011 of \$35,000, with interest accrued at 6% per annum, convertible at \$5.10 per common share was repaid to a CUI Global officer. There was no beneficial conversion on the convertible note as the conversion price was equal to the fair value on the date of grant.

During 2014, 2013 and 2012, \$265,184, \$2,322,863 and \$3,468,221, respectively in principal and interest payments were made in relation to the promissory notes issued to related party, IED, Inc. The 2013 payment utilized \$2,000,000 from the equity sale proceeds for the repayment of principal. In conjunction with the 2013 principal payment, the promissory note terms were amended to extend the due date to May 15, 2020 and the interest rate was reduced to 5%

per annum, with interest payable monthly and the principal due as a balloon payment at maturity. The 2012 payment utilized \$3,000,000 from the equity sale proceeds for the repayment of principal.

Please see Note 13. Related Party Transactions and Note 9. Notes Payable for further discussion of these transactions.

#### Recap of Liquidity and Capital Resources

During the year ended December 31, 2014, the Company continued to improve its financial strength. Despite an increased net loss for the year, much of which was comprised of non-cash expenses such as amortization of intangibles related to the Orbital Gas Systems acquisition in 2013 and stock compensation provided to consultants, directors and employees.

The Wells Fargo mortgage promissory note has a balance at December 31, 2014 of \$3,604,242 due, of which \$80,746 is the current portion. The Wells Fargo promissory note has an interest rate of 2% above LIBOR, payable over ten years, secured by a deed of trust on the purchased property executed by CUI Properties, LLC and guaranteed by CUI Global, Inc. In conjunction with the purchase and promissory note, Wells Fargo and the Company entered into a Swap Transaction Confirmation agreement effective October 1, 2013 that effectively maximizes the annual interest rate at 6.27%. As of the date of this filing, the Company is compliant with all covenants on the promissory note with Wells Fargo Bank.

On September 27, 2013, our wholly owned subsidiary, CUI, Inc., closed on a two year revolving Line of Credit (LOC) with Wells Fargo Bank in the principal amount of four million dollars, (\$4,000,000). The interest rate on any outstanding balance is 1.75% above either the daily one month LIBOR or the LIBOR in effect on the first day of the applicable fixed rate term. The LOC is secured through a security agreement on accounts receivable and equipment, as well as other miscellaneous personal property assets. CUI Global, Inc., the parent company, is a payment guarantor of the LOC. This revolving LOC effectively satisfies in full and terminates the earlier LOC the Company had with Wells Fargo Bank.

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 December 31, 2014, there was no balance outstanding on the line of credit.

At December 31, 2014, the Company had cash and cash equivalents balances of \$11,704,361 and short term investments held to maturity of \$11,159,765. At December 31, 2014 and 2013, the Company had \$2,090,952 and \$2,964,871, respectively, of cash and cash equivalents balances at domestic financial institutions which were covered under the FDIC insured deposits programs and \$132,022 and \$137,156, respectively, at foreign financial institutions covered under the United Kingdom Financial Services Compensation (FSC). At December 31, 2014 and 2013, the Company held \$64,411 and \$108,747, respectively, in Japanese foreign bank accounts and \$2,531,689 and \$6,984,417, respectively, in European foreign bank accounts. At December 31, 2014 and 2013, the Company had \$6,845,000 and \$9,750,000, respectively, of investments in certificates of deposit which were covered under FDIC insured limits and covered under \$500,000 of SIPC insured programs for investments.



The following tables present our contractual obligations as of December 31, 2014:

Capital Lease Obligations

	2015	2016	2017	2018	2019	Thereafter	Total
Minimum lease payments	\$32,723	\$43,339	\$30,732	\$-	\$-	\$-	\$106,794

Operating lease obligations

	2015	2016	2017	2018	2019	Thereafter	Total
Operating Leases:	\$219,993	\$66,878	\$9,108	\$-	\$-	\$-	\$295,979

Notes payable and working capital line of credit obligations

	2015	2016	2017	2018	2019	Thereafter	Total
Notes payable Maturities:	\$80,746	\$84,874	\$89,218	\$93,780	\$98,574	\$8,460,733	\$8,907,925

As of December 31, 2014 the Company had an accumulated deficit of \$82,716,744.

The Company believes its operations and existing financing structure, including cash and cash equivalents and short term investments held to maturity, will provide sufficient cash to meet its short-term working capital requirements for the next twelve months.

The Company expects the revenues from CUI, Inc., CUI Japan and Orbital Gas Systems to help cover operating and other expenses for the next twelve months of operations. Additionally, in March 2015, the Company acquired the assets of Tectrol, Inc. which will be included in the operations of the power and electro-mechanical segment and will further contribute revenues 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.

### Off-Balance Sheet Arrangements

As of December 31, 2014, the Company had no off-balance sheet arrangements.

### Results of Operations

The accompanying financial statements reflect the operations of the Company for the fiscal years ended December 31, 2014, 2013 and 2012.

Revenue

During the years ended 2014, 2013 and 2012, total revenues were \$76,045,217, \$60,651,665, and \$41,084,589.

The increase in revenues during 2014 is attributable to the full year operations of Orbital Gas Systems Limited which was acquired in April 2013 (Gas segment) and accounts for approximately \$9.5 million of the sales increase resulting from sales improvement during the second through fourth quarter periods and owning Orbital for the first quarter of 2014, in addition to increases through the Power and Electro-Mechanical segment of approximately \$5.9 million which is the result of continued product introductions, sales and marketing efforts, further expansion through the distribution sales channel, and the increased back log of CUI orders on hand at December 31, 2013.

The customer orders related to the Power and Electro-Mechanical segment (CUI, Inc. and CUI Japan) are associated with continued product introductions, continued sales and marketing programs, new customer engagements, continued growth within the distribution network of CUI products, and the strengthening within the electronic components industry.

The Power and Electro-Mechanical segment held a backlog of customer orders of approximately \$12.5 million as of December 31, 2014 as compared to a backlog of customer orders of approximately \$13.4 million as of December 31, 2013 and \$11.7 million at December 31, 2012. This decrease is reasonable given the overall growth within the Power and Electro-Mechanical segment. At December 31, 2014, Orbital Gas Systems Limited held a backlog of customer orders of approximately \$15.9 million as compared to a backlog of customer orders of approximately \$25.0 million as of December 31, 2013. The decrease in Orbital backlog is associated with several items, including the increase of approximately \$3.3 million for the third and fourth quarter revenues of 2014 in comparison to 2013, and approximately \$1.0 million change related to the changes in the Sterling Pound versus US Dollar exchange rate. Additionally, Orbital is still being affected by the restructuring of the UK operations of its largest customer related to the “Revenue = Incentives + Innovation + Outputs” (RIIO) program and other transformation related initiatives, which have significantly impacted that customer’s ability to place large contract orders.

CUI, Inc. introduced 937 new products during the year ended 2014. The continued product expansion and moving smaller sales through the distribution channel is expected to continue to result in revenue growth in future periods as CUI’s sales group and support staff continues to reach new customers, further expand relationships with existing customers and continued product introductions in efforts to have CUI products designed into new projects.

The increase in revenues during 2013 is attributable to the acquisition of Orbital Gas Systems Limited in April 2013 (Gas segment) which accounts for approximately \$17.5 million of the increase, in addition to increases through the Power and Electro-Mechanical segment of approximately \$2.1 million which is the result of continued product introductions during 2013 and 2012, sales and marketing efforts, the addition of Future Electronics as a distribution channel following the global distribution agreement between CUI and Future Electronics that began in January 2013, and the increased back log of CUI orders on hand at December 31, 2013. CUI introduced 808 new products during the year ended 2013.

The growth in 2012 is primarily due to management’s decision to continue to push smaller sales through the distribution sales channel and focus on larger value direct sales through the Power and Electro-Mechanical segment as well as the continued expansion of CUI’s product offering and further penetration in the Japanese market through CUI Japan. This change resulted in a 4.7% decrease in the total number of customer sales orders processed, while total revenues increased approximately \$2.1 million, or 5.5% during 2012. CUI introduced 207 new products within the Power and Electro-Mechanical segment during the year ended 2012.

#### Cost of Revenue

The cost of revenue for the years ended December 31, 2014, 2013 and 2012 were \$47,494,283, \$37,147,182 and \$25,958,730, respectively. The significant increase during 2014 compared to the prior year is primarily the result of the increase in sales in both the Power and Electro-Mechanical Segment and the Gas Segment which included the operations of Orbital during the first quarter of 2014. The significant increase during 2013 compared to the prior year is primarily the result of the acquisition of Orbital Gas Systems Limited in April 2013 which accounts for \$10,610,576 of the increase while the remainder is representative of the growth in revenues through CUI Inc. and CUI Japan. The significant increase during 2012 is primarily the result of the overall growth in sales. As a percentage of revenues, the cost of revenue remained generally consistent at 62.46% for 2014 compared with 61.25% and 63.18% in 2013 and 2012, respectively.

Selling, General and Administrative Expenses

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

SG&A expenses increased to approximately \$26.1 million for the year ended December 31, 2014 from \$19.5 million for the same period during 2013 and \$15.5 million during 2012. The 2014 increase of approximately \$6.6 million from 2013 is primarily the result of having Orbital Gas Systems included for the first quarter of 2014 SG&A activities of Orbital which accounted for approximately \$2.0 million of the increase, stock compensation expense of \$1.7 million representing an increase of \$1.1 million from 2013 related to stock issuances and vesting expense of options related to consultants for strategic services including customer marketing and investor relations, to directors and employees for services, as well as the overall increase in operations throughout the organization associated with increased revenues of approximately \$15.4 million including continued investment in reaching new customers and markets and continuing existing customer relationships.

The SG&A expenses increased \$4.0 million between 2013 and 2012, primarily in relation to the acquisition of Orbital Gas Systems Limited in April 2013 and its ongoing operations which accounts for \$4.4 million of the increase in addition to a decrease of \$0.6 million in expenses for stock issuances and options expense related to employee compensation and issuances to consultants for strategic investor marketing services, engineering and sales services.

The SG&A increase of approximately \$2.9 million in 2012 is primarily in relation to an increase of \$0.6 million of stock compensation expense for issuances to consultants related to strategic investor marketing services, an increase of approximately \$0.4 million for investor relations related expenses including travel, supplies, conferences, meetings and cash expenses for strategic investor marketing services, an approximately \$0.4 million increase in sales related travel for CUI, Inc. related sales activity to manage third party sales representatives, reach new customers, maintain existing customers and promote new product lines including Novum and Solus, an approximately \$0.3 million increase for stock compensation expenses for issuances to officers and employees as bonuses for achieving corporate goals, an approximately \$0.2 million increase in expenses associated with professional fees related to engineering support, testing fees and travel expenses related to the GasPT2 product as the Company increased the GasPT2 exposure to customers in North America, parts of Europe and elsewhere, \$0.1 million increase in costs associated with being a public company such as filing services and fees, professional fees, and listing fees among others, increased costs associated with an increase in advertising for company products of approximately \$35 thousand, increased commissions to third party sales representatives related to the increase in sales, growth in operations at CUI Japan associated with the increase in its revenues, operating costs associated with the newer technologies Novum and Solus and the overall growth of the business in relation to revenues.

The total dollar amount of SG&A as a percentage of total revenue for the years ended December 31, 2014, 2013 and 2012 was 34.27%, 32.15% and 37.71% respectively.

The Company anticipates the amount of its sales and marketing expenditures and general and administrative expenses will further increase in 2015 as the Company continues to grow and as it opens its North American branch of its Gas Segment operations. Additional factors regarding the anticipated increase in SG&A expenditures for 2015 include costs associated with the continued efforts to increase revenues, further expand distribution sales for the CUI Inc. product lines, continued work to penetrate the market with its newer product lines including GasPT2, VE, IRIS, Novum and Solus as well as seeks to continue to further its technology offerings.

#### Depreciation and Amortization

The depreciation and amortization expenses are associated with depreciating buildings, furniture, vehicles, equipment, software and other intangible assets over the estimated useful lives of the related assets. During the years ended December 31, 2014, 2013 and 2012, the depreciation and amortization expenses were approximately \$4.4 million, \$3.3 million and \$0.7 million, respectively. The large increase in the depreciation and amortization expense between 2014 and 2013 is primarily the result of the increased amortization expense of \$0.9 million associated with the identifiable intangible assets that were acquired during the second quarter of 2013 with Orbital Gas Systems Limited and amortize over their estimated useful lives, as well as the full years depreciation expense for tangible depreciating fixed assets at Orbital and the full years depreciation of the CUI Global headquarters building acquired in September 2013. The large increase in the depreciation and amortization expense between 2013 and 2012 is primarily the result of the amortization expense of \$2.2 million associated with the identifiable intangible assets that were acquired with Orbital Gas Systems in April 2013 and amortized over their useful lives, as well as the addition of depreciation expense for tangible depreciating fixed assets at Orbital.

#### Research and Development

The research and development costs are related to the various technologies for which CUI Global has acquired licensing rights or is developing internally. The expenditures for research and development have been directed primarily towards the further development of Novum Advanced Power technologies including digital POLs and the Solus Topology, AMT Capacitive Encoders and towards the development of the GasPT2 and VE technologies. Research and development costs were approximately \$1.2 million, \$0.9 million and \$0.8 million for the years ended December 31, 2014, 2013 and 2012, respectively. The Company expects that 2015 research and development expenses will be consistent with 2014 as the Company continues to expand its product offering and technologies due to market acceptance and customer integration.

#### Impairment Loss

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. There were approximately \$32 thousand, \$0 and \$0.3 million of impairment expenses recorded by the Company in 2014, 2013 and 2012, respectively.

*Bad Debt*

Bad debt in 2014 resulted in a benefit of approximately \$39 thousand as compared to expenses in 2013 and 2012 of approximately \$212 thousand and \$66 thousand, respectively. The change in bad debt during 2014 is relates to miscellaneous customer receivables which the Company has either recorded an allowance for doubtful collections of the receivable or for which the CUI Global has determined the balance to be uncollectible as well as improvements in the general allowance for doubtful collections related to ending receivables balances, aging, and historical considerations of bad debt experience among others. Bad debt expenses in 2014, 2013 and 2012 represents less than ½% of total revenues and relates to miscellaneous receivables which the Company has either recorded an allowance for doubtful collections of the receivable or for which the Company has determined the balance to be uncollectible.

*Other Income*

During the years ended 2014, 2013 and 2012, the Company had other income of approximately \$0.3 million, \$0.2 million, and \$0.1 million, respectively. Other income for the year ended December 31, 2014, consisted of \$145 thousand of interest income, \$103 thousand of foreign exchange gain, \$33 thousand of other miscellaneous income. Other income for the year ended December 31, 2013, consisted of approximately \$115 thousand of interest income, \$96 thousand of foreign exchange gain, \$25 thousand of other miscellaneous income. Other income for the year ended December 31, 2012, consisted of \$49 thousand of foreign exchange gain, \$31 thousand of interest income, \$15 thousand of other miscellaneous income.

*Impairment on note receivable*

The impairment on note receivable during 2013 is related to fully reserving against the July 1, 2011 note receivable from Comex Electronics and its owners following notification that the primary owner had passed away in December 2013 and the Company intended to seek bankruptcy protection under Japanese law. CUI Global continues its pursuit of recovery options regarding the amounts owed by Comex Electronics and its owners, however, as of December 31, 2014 recovery is unlikely and the full balance has been written off.

*Investment Income*

The Company recognized investment income on equity investment in an affiliate of approximately \$49 thousand, \$25 thousand and \$60 thousand for the years ended December 31, 2014, 2013 and 2012, respectively.

*Financing Fees*

During 2014, the Company did not incur financing fees. During 2013, the Company incurred financing fees associated with the equity raises of approximately \$3.2 million. During 2012, the Company incurred approximately \$1.6 million of financing fees. These fees were offset against Additional Paid in Capital in relation to the equity proceeds.



Change in Value of Warranty Liability

During 2014, the Company reduced its warranty liability to \$0 based upon estimates of future warranty costs associated with 2014 sales. During 2013, following the acquisition of Orbital Gas Systems, the Company reported a warranty liability of approximately \$0.2 million which is included in accrued expenses on the balance sheet. For the year ended 2012, there was no warranty liability.

Non-cash Interest Expense

The Company recorded expenses of approximately \$0, \$43 thousand and \$73 thousand during 2014, 2013 and 2012, respectively, for non-cash interest expenses, including amortization of debt offering costs. The decrease in this expense during 2014 and 2013 is primarily associated with the completion in 2012 of the amortization of the discounts on debt related to the CUI Inc. acquisition in 2008 and the completion in 2013 of the amortization of the debt offering costs associated with Wells Fargo related debts.

Interest Expense

The Company incurred \$0.5 million, \$0.4 million and \$0.6 million of interest expense during 2014, 2013 and 2012, respectively. Interest expense is for interest on the secured and unsecured convertible notes, secured and unsecured promissory notes, and bank working capital loans and term loans. The increases in 2014 is the result of the full years interest related to the promissory note payable to Wells Fargo Bank, N.A. for the financing of the purchase of the headquarters facility in Oregon which is discussed further in Item 2. Properties. The decreases in 2013 and 2012 are the result of reductions in debts during both 2013 and 2012 through utilizing the proceeds from the sales of equity, offset somewhat during Q4 2013, due to interest on the promissory note for the headquarters acquisition in September 2013.

Provision (benefit) for taxes

A net benefit of \$0.7 million was recorded to the income tax provision for the year ended December 31, 2014 resulting in an effective tax rate of 20.59% for the year. Our income tax benefit and effective tax rate were \$0.4 million and 29.70%, respectively for the same period in 2013. The income tax benefit in 2014 and 2013 relates primarily to our foreign operations partially offset by state minimum taxes as all other USA tax benefits are reduced by a full valuation allowance. Our income tax expense and effective tax rate were \$0.0 million and 1.35%, respectively for the same period in 2012. The income tax provision for 2012 relates primarily to state minimum taxes as all of our other USA tax benefits are reduced by a full valuation allowance.

We continue to record a full valuation allowance against our U.S. net deferred tax assets at December 31, 2014 and 2013 as it is not more likely than not that we will realize a benefit from these assets in a future period. As of December 31, 2014, we have federal and state net operating loss carry forwards of approximately \$44.6 million and \$44.7 million, respectively, which will expire between 2018 and 2034.

Consolidated Net Loss

The Company had a net loss of \$2.8 million for the year ended December 31, 2014 as compared to net losses of approximately \$0.9 million and \$2.5 million for the years ended December 31, 2013 and 2012, respectively.

The loss in 2014 is largely attributable to several significant non-cash items that impacted profitability. A significant portion of the increase in non-cash related expense is the equity compensation issued in the form of stock and options grants to strategic consultants, employees and directors for performance as well as vesting of granted stock options totaling approximately \$1.7 million, an increase of approximately \$1.1 million as compared to the year ended December 31, 2013. Additionally, with the full year amortization of the acquisition related intangible assets acquired with Orbital Gas Systems in 2013, the amortization of intangible assets increased \$0.9 million while the deferred income taxes benefit decreased \$0.1 million. At the same time as these costs increased, the Company increased revenues \$15.4 million, while the gross profit margin decreased slightly to 37.54% from 38.75% which helped to offset these increased costs. Of this increase, the Gas segment increased approximately \$9.5 million related to having Orbital Gas Systems for the full year in 2014 as well as general sales growth for this segment. The Power and Electro-Mechanical segment increased revenues approximately \$5.9 million related to continued market penetration through both new and existing customers, including growth within the distribution sales channels.

The loss in 2013 is largely attributable to the non-cash amortization expense associated with intangible assets acquired with the April 2013 acquisition of Orbital Gas Systems. Total amortization of intangible assets during 2013 was approximately \$2.5 million as compared to approximately \$150 thousand in 2012. Additionally, the Company recognized bad debt expense of \$0.2 million for miscellaneous customer receivables for which collection is uncertain and \$0.5 million for the impairment of note receivable relative to the remaining balance of the note receivable for the divestment of CUI Global's 49% interest in Comex in 2011. Exclusive of those items, the Company showed significant improvement as compared to 2012 which is the result of the increase in revenues through CUI Inc. and CUI Japan of approximately \$2.1 million as well as the acquisition of Orbital Gas Systems in April 2013 which contributed approximately \$17.5 million to revenues during the year ended December 31, 2013. The company improved its gross profit margin during 2013 to 38.75% from 36.82% in 2012 and significantly improved its selling, general and administrative expenses as a percentage of total revenue from 37.71% in 2012 to 32.15% in 2013. Additionally, with the acquisition of Orbital Gas Systems Limited, the Company experienced an increase in income tax related expenses primarily related to the United Kingdom as the amortization of intangibles expenses are not allowed under U.K. tax rules.

The loss in 2012, was primarily the result of increased total revenues of approximately \$2.1 million, offset by increases in cost of revenues of approximately \$1.6 and increased selling, general and administrative expenses of approximately \$2.9.

#### Effect of Inflation and Changing Prices

The Company believes, that during fiscal years ended December 31, 2014, 2013 and 2012, the effect of a hypothetical 100 basis point shift in foreign currency exchange rates applicable to our business would not have had a material impact on our consolidated financial statements.

#### Recent Accounting Pronouncements

In March 2013, the FASB issued Accounting Standards Update 2013-05, "*Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.*" ASU 2013-05 provides updated guidance to clarify a parent company's accounting for the release of the cumulative translation adjustment into net income upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. This guidance is effective for periods beginning after December 15, 2013, and is to be applied prospectively to derecognition events occurring after the effective date. This ASU had no impact on the Company's consolidated financial statements or financial statement disclosures.

In July 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-11, "*Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Credit Carryforward Exists.*" ASU No 2013-11 provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carry forward

exists. The amendments in this update are effective for fiscal years and interim reporting periods beginning after December 15, 2013. The adoption of this provision had no impact on the Company's financial condition or results of operations.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, “*Revenue from Contracts with Customers*” (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, “*Compensation – Stock Compensation (Topic 718) – Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*” (ASU 2014-12). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The standard is effective for annual periods and interim period within those annual periods beginning after December 15, 2015, early adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2014-12 on our consolidated financial statements.

In January 2015, the FASB issued Accounting Standards Update No. 2015-01, “*Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*” (ASU 2015-01). ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this provision is not expected to have an impact on the Company’s financial condition or results of operations.

## Item 7A. Quantitative and Qualitative Disclosure about Market Risk

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. This market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates. The Company neither holds nor issues financial instruments for trading purposes.

The following sections provide quantitative information on the Company's exposure to foreign currency exchange rate risk and stock price risk. The Company makes use of sensitivity analyses that are inherently limited in estimating actual losses in fair value that can occur from changes in market conditions.

### Foreign Currency Exchange Rates

The Company conducts operations in three principal currencies: the U.S. dollar, the British pound sterling and the Japanese yen. These currencies operate primarily as the functional currency for the Company's U.S., U.K. and Japanese operations, respectively. Cash is managed centrally within each of the three regions with net earnings invested in the U.S. and working capital requirements met from existing U.S. intercompany liquid funds.

Because of fluctuations in currency exchange rates, the Company is subject to currency translation exposure on the results of its operations. Foreign currency translation risk is the risk that exchange rate gains or losses arise from translating foreign entities' statements of earnings and balance sheets from functional currency to the Company's reporting currency, the U.S. dollar, for consolidation purposes. As currency exchange rates fluctuate, translation of our Statements of Operations into U.S. dollars affects the comparability of revenues and operating expenses between years.

Revenues and operating expenses are primarily denominated in the currencies of the countries in which our operations are located, the U.S., U.K. and Japan. Our consolidated results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates.

The table below details the percentage of revenues and expenses by the three principal currencies for the fiscal years ended December 31, 2014 and December 31, 2013:

U.S. Dollars	British Pound	Japanese Yen
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	Sterling <sup>1</sup>					
Fiscal year ended December 31, 2014						
Revenues	63	%	36	%	1	%
Operating expenses	61	%	38	%	1	%
Fiscal year ended December 31, 2013						
Revenues	69	%	29	%	2	%
Operating expenses	71	%	28	%	1	%

<sup>1</sup> On April 18, 2013, we closed on our share purchase agreement to acquire 100% of the equity interest in Orbital Gas Systems Limited which was effective April 1, 2013.



To date, we have not entered into any hedging arrangements with respect to foreign currency risk and have limited activity with forward foreign currency contracts or other similar derivative instruments. The Company believes, that during fiscal ended December 31, 2014, the effect of a hypothetical 100 basis point shift in foreign currency exchange rates applicable to our business would not have had a material impact on our consolidated financial statements.

### Investment Risk

The Company has an Investment Policy that, *inter alia*, provides an internal control structure that takes into consideration safety (credit risk and interest rate risk), liquidity and yield. Our Investment officers, CEO and CFO, oversee the investment portfolio and compiles a quarterly analysis of the investment portfolio.

Cash and cash equivalents are diversified and maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit, therefore, bear minimal credit risk.

The Company has trade receivable and revenues concentrations with large customers, which include a large concentration of trade receivables and revenues in the United Kingdom.

## **Item 8. Financial Statements and Supplementary Data**

The Financial Statements and the report of Perkins & Company, P.C. and the report of Liggett, Vogt & Webb, P.A., are attached hereto and incorporated herein by reference.

## **Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure**

Effective April 2, 2014, the CUI Global terminated its relationship with the Independent Registered Accounting Firm Liggett, Vogt and Webb, P.A. (“LVW”). The Company had no disagreements with LVW as the Company’s Independent Registered Public Accounting Firm on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure during the time in which LVW served the Company.

The Company has had no disagreements with Perkins & Company, P. C. as the Company’s Independent Registered Public Accounting Firm on any matter of accounting principles or practices, financial statement disclosure, or auditing

scope or procedure.

## **Item 9A. Controls and Procedures**

### *Evaluation of Disclosure Controls and Procedures*

The Company's management, with the participation of the Company's Chief Executive Officer and its Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this annual report. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply their judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon that evaluation, the Company's management, including the CEO and the CFO, concluded that, as of December 31, 2014, the Company's disclosure controls and procedures were not effective as of the end of the period covered by this annual report, to provide reasonable assurance that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. This result is due to a material weakness in our internal control over financial reporting related to the review of contracts that fall outside of standard terms and conditions for proper revenue recognition at our subsidiary Orbital Gas Systems Limited.

Management's Annual Report on Internal Control over Financial Reporting

Management of CUI Global, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with United States of America generally accepted accounting principles (U.S. GAAP). Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company assets that could have a material effect on the financial statements.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Because of such inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework ("2013 framework"). After conducting the assessment, management determined that, as of December 31, 2014, the Company's internal control over financial reporting was not effective as a result of the material weakness described below. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We have identified the following material weakness in our internal control over financial reporting:

The Company had implemented a control at our subsidiary, Orbital Gas Systems Limited, in the fourth quarter of 2014 that was designed to ensure all contracts outside of standard terms and conditions were being reviewed by -qualified personnel for proper revenue recognition treatment under US GAAP, however, contracts prior to the implementation were not covered by this control. Accordingly, the control was not designed and operating effectively at December 31, 2014 to prevent a material misstatement of the consolidated financial statements.

Notwithstanding the identified material weakness, management believes the consolidated financial statements included in this Annual Report on Form 10-K fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2014, has been audited by Perkins & Company, P.C., the independent registered public accounting firm who also has audited the Company's consolidated financial statements included in this Annual Report on Form 10-K. Perkins & Company, P.C.'s report on the Company's internal control over financial reporting and the consolidated financial statements appears in this Annual Report.

Changes in Internal Control over Financial Reporting

During the year ended December 31, 2014, Management took specific steps to address the material weaknesses described in the 10-K/A for the year ended December 31, 2013. These measures include the implementation of the overall internal control over financial reporting procedures at Orbital Gas Systems Limited, the implementation of appropriate controls and procedures around percentage of completion revenue recognition, removal of "Super User" accounting system access rights by CFO, segregation of authorities over cash account access and rights therein, improvements made toward revenue recognition related to distribution agreements, implementation of new internal controls and procedures to strengthen our internal controls over financial reporting specifically with regard to acquisition accounting requirements for purchase price allocation of deferred tax liabilities. There were no changes in the Company's internal control over financial reporting that occurred during the fourth quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Subsequent to December 31, 2014, management has already implemented additional procedures to ensure any outstanding contracts existing prior to the contract review control implementation are properly reviewed and expects the material weakness to be fully resolved during the first quarter of 2015.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

CUI Global, Inc.

Tualatin, Oregon

We have audited CUI Global Inc. and Subsidiaries' (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America (US GAAP). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness regarding management's failure to design and maintain controls at its subsidiary, Orbital Gas Systems Limited, to ensure all contracts outside of standard terms and conditions were being reviewed by qualified Company personnel for proper revenue recognition treatment under US GAAP has been identified and described in management's assessment. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2014 consolidated financial statements, and this report does not affect our report dated March 16, 2015, on those consolidated financial statements.

In our opinion, CUI Global, Inc. and Subsidiaries did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the Company after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of CUI Global, Inc. and Subsidiaries as of December 31, 2014, and the related consolidated statements of operations, comprehensive income and (loss), changes in stockholders' equity, and cash flows for the year ended December 31, 2014 and our report dated March 16, 2015 expressed an unqualified opinion thereon.

/s/ Perkins & Company, P.C.

Portland, Oregon

March 16, 2015

## Item 9B. Other Information

### Voting Results for the 2014 Annual Meeting of Shareholders

At the Annual Meeting of Shareholders for CUI Global Inc. on November 24, 2014, the Company's shareholders: (i) elected seven directors; (ii) ratified the appointment of Perkins & Company, P.C. of the BDO Seidman Alliance as the Company's Independent Registered Public Accounting Firm for the year ending December 31, 2014; and (iii) approved, on an advisory basis, the compensation paid to the Company's named executive officers. The voting results for each of these proposals is as follows:

Election of seven directors each for a one-year term.

<b><u>Nominee</u></b>	<b><u>For</u></b>	<b><u>Withhold</u></b>	<b><u>Non Votes</u></b>
William J. Clough	9,465,327	373,821	5,515,128
Thomas A. Price	8,230,106	1,609,042	5,515,128
Matthew M. McKenzie	9,527,987	311,161	5,515,128
Sean P. Rooney	8,251,181	1,587,967	5,515,128
Paul D. White	9,477,808	361,340	5,515,128
Corey A. Lambrecht	9,461,808	377,340	5,515,128
Robert J. Evans	9,479,474	359,674	5,515,128

Ratification of the Appointment of Perkins & Co. of the BDO Seidman Alliance as the Company's Independent Registered Public Accounting Firm for the year ending December 31, 2014.

<u>For</u>	<u>Against</u>	<u>Abstain</u>
14,853,086	412,378	88,812

Advisory Approval of the Company's Executive Compensation (Say-on-Pay).

<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Non votes</u>
9,532,936	146,494	159,718	5,515,128

### **PART III**

#### **Item 10. Directors, Executive Officers and Corporate Governance**

Our Bylaws permit the number of directors to be fixed by resolution of the Board of Directors, but to be no less than one. The Board of Directors has set the maximum number of members to no more than eight members. Directors are elected by a majority of the votes cast by the stockholders and serve a one year term or until their successors have been elected and qualified or their earlier resignation or removal. At December 31, 2014, we have seven directors, five of whom are "independent" in accordance with applicable rules promulgated by the Securities and Exchange Commission and within the meaning of Rule 5605(a)(2) of the NASDAQ Stock Market. One of our directors resigned effective February 5, 2014 and one of our directors resigned effective January 8, 2015.

The Board of Directors has four standing committees: Audit Committee, Disclosure Committee, Compensation Committee and Nomination Committee, each of which has a written charter and/or statement of policy approved by our board. Our board currently appoints the members of each committee. Copies of the current committee charters and/or statement of policy for each committee are posted on our website at [www.CUIGlobal.com](http://www.CUIGlobal.com). No incumbent director attended, either in person or electronically, fewer than 100% of the total number of meetings held by the committees on which such director served.



The following are officers and directors of the Company with their ages as of December 31, 2014, and a list of the members of our four standing committees: Audit Committee, Disclosure Committee, Compensation Committee and Nomination Committee.

***William J. Clough, Esq.***, *President/Chief Executive Officer, Director and Interim Chairman and General Counsel of CUI Global, Inc., Chief Executive Officer of CUI, Inc. and Chief Executive Officer of Orbital Gas Systems, Ltd., age 63 (Seat 1)*

Mr. Clough was elected at the 2006 Annual Meeting of Shareholders to serve a two year term on the Board of Directors. Mr. Clough continues to serve on the Board of Directors and was reelected at the 2014 Annual Meeting of Shareholders to serve a one year term.

Mr. Clough was appointed President and Chief Executive Officer of CUI Global, Inc. September 13, 2007 at which time Mr. Clough stepped down as Executive Vice President of Corporate Development. Effective May 16, 2008, CUI Global, Inc. formed a wholly owned subsidiary, Waytronx Holdings, Inc., to acquire the assets of CUI, Inc. Along with this acquisition Mr. Clough was appointed Chief Executive Officer of Waytronx Holdings, Inc. (now renamed to CUI, Inc.). Mr. Clough was a police officer for 16 years, working at the local, state and federal levels as a Federal Air Marshall in Southern Europe and the Middle East, in 1985 and 1986. Mr. Clough received his Juris Doctorate, cum laude, from the University of California, Hastings College of the Law in 1990. He is certified to practice law in state and federal courts in California, Illinois, Hawaii and before the United States Supreme Court.

During late 2011 into early 2012, along with Company CFO, Daniel Ford, Mr. Clough led the efforts to complete a successful equity raise; coupled with a re-structuring of the Company's Capital Structure and up-listing the Company to the NASDAQ Capital Market in February 2012. In 2013, along with Company CFO, Daniel Ford, Mr. Clough led the efforts to complete a successful equity raise and the acquisition of Orbital Gas Systems Limited.

***Thomas A. Price, Director, age 71 (Seat 2)***

Mr. Price was elected to serve as a director at the 2008 Annual Meeting of Shareholders and continues to serve on the Board of Directors and was reelected at the 2014 Annual Meeting of Shareholders to serve a one year term.

Mr. Price has nearly 50 years of business and operational management experience. He was the founder of Tom Price Dealership Group and later a co-founder of FirstAmerica Automotive, a leading auto dealership group with 29 franchises throughout California. Mr. Price developed a multi-brand San Francisco Auto Repair Center in the late

1990's and a conference facility in Larkspur, California in 2003 where he also stores and displays his extensive collection of vintage automobiles. Currently, Mr. Price is the co-owner of 14 auto dealerships in ten locations in Northern California. He was Chairman of the Lexus National Dealer Advisory Board and charter member of the J.D. Power Dealer Roundtable. The Price Family Dealerships are major sponsors of SchoolsRule in Marin County, Marin Breast Cancer Foundation, Dedication to Special Education, CASA/Advocates for Children, and the Golden Gate Shootout.

***Matthew M. McKenzie***, President/Chief Operational Officer of CUI, Inc., Chief Operating Officer, Corporate Secretary of CUI Global, Inc. and Director, age 34 (Seat 3)

Matt McKenzie has continuously served on the Board of Directors since the 2008 Annual Meeting of Shareholders and was reelected at the 2014 Annual Meeting of Shareholders to serve a one year term.

Mr. McKenzie earned an MBA from George Fox University. Matt McKenzie has been working in various functions for CUI for over 10 years, gaining him intimate knowledge of the business, its operations and its opportunities for growth. Over the past several years, Mr. McKenzie has worked to position CUI, Inc. for growth through sales and operation expansion as well as channel development and technology development. Mr. McKenzie initiated ISO 9001 certification, a quality management system, provided structure to global logistics, including CUI's international partners, and implemented CUI's ERP system, which allows for more visibility and analysis opportunities for CUI. He spearheads the research, development and implementation of the Novum and Solus technologies.

***Sean P. Rooney***, Director, age 43 (Seat 4)

Mr. Rooney has continuously served on the Board of Directors since the 2008 Annual Meeting of Shareholders and was reelected at the 2014 Annual Meeting of Shareholders to serve a one year term.

Mr. Rooney brings to the CUI Global board nearly 20 years of financial management experience. He currently serves as Senior Director of Investments for Oppenheimer & Co. Inc., a leading full service investment banking, securities and wealth management firm. Prior to joining Oppenheimer, he served in a similar capacity at Maxim Group, a boutique investment bank in New York, and Investec Ernst & Company, an international specialist bank headquartered in South Africa and the U.K. Through his many years of experience, Mr. Rooney has built a vast network of industry resources and contacts.

Mr. Rooney graduated from C. W. Post University in 1993 with a Bachelors of Arts degree in Business Administration. Mr. Rooney currently manages a clientele of high net worth investors, institutions and foundations.

***Paul D. White***, Director, age 53 (Seat 5)

Mr. White was appointed as a Director by the Board of Directors pursuant to the bylaws during April 2014 to fill a vacancy. Mr. White was elected at the 2014 Annual Meeting of Shareholders to serve a one year term.

Mr. White is a graduate of Humboldt State University and brings to the CUI Global board over 25 years of upper level business management skills. Mr. White currently serves as Vice President of the Healthcare Division for North America of a global security company. His responsibilities include direct P & L statements of \$120 million, along with management, control, and supervision of approximately 3,000 employees working at 44 Medical Centers & Hospitals and over 600 Medical Office Buildings throughout the United States. He also serves as the company's subject matter expert for North America. He previously served in the Office of the General Counsel and Risk Services, as an Environmental Risk Consultant with Sutter Health Support Services – Corporate Services. His key responsibilities included: formulating best practice solutions to minimize/eliminate existing and potential employee health & safety and security exposures as well as consultations of state, federal, and professional standards for Risk Control/Environmental Health & Safety programs such as OSHA, TJC, DHS, EPA, NFPA, and DOT.

As a results oriented business leader with achievement in developing, managing and expanding business portfolios, with expertise at senior management level in healthcare safety, security and risk management programs in complex matrix organizations, Mr. White has senior management experience in contract management, public relations, program strategy and design and has been consistently recognized for effective financial management, leadership, integrity, team-building, and program management skills.

***Corey A. Lambrecht, Director, age 45 (Seat 6)***

Mr. Lambrecht has continuously served on the Board of Directors since the 2007 Annual Meeting of Shareholders and was reelected at the 2014 Annual Meeting of Shareholders to serve a one year term.

Mr. Lambrecht is a 14+ year public company executive with experience in strategic acquisitions, new business development, pioneering consumer products, corporate licensing and interactive technology services. Mr. Lambrecht serves as Executive Vice President of Global Alerts, a leading Cause Media company. He most recently served as Director of Sales for Leveraged Marketing Associates, the worldwide leader in licensed brand extension strategies.

While Executive Vice President for Smith & Wesson Holding Corporation he was responsible for Smith & Wesson Licensing, Advanced Technologies and Interactive Marketing divisions. He was the former President of A For Effort (sold to Freesoftwareclub.com), an interactive database marketing company specializing in online content (advergaming) for clients such as the National Hockey League. Mr. Lambrecht's prior experience also includes Pre-IPO founder for Premium Cigars International and VP Sales/Marketing for ProductExpress.com.

***Robert J. Evans, Director, age 49 (Seat 7)***

Mr. Evans was appointed as a Director by the Board of Directors pursuant to the bylaws during April 2014 to fill a vacancy. Mr. Evans was elected at the 2014 Annual Meeting of Shareholders to serve a one year term. Mr. Evans resigned as director and Audit Committee member effective January 8, 2015.

Mr. Evans has over 20 years of investment and financial management experience. He is the founder of Pennington Capital, a private investment fund, and has served as its managing partner since 2010. Prior to forming Pennington Capital, Mr. Evans was a co-founder and one of the managing partners of Craig-Hallum Capital Group, which is an institutional research boutique and investment banking firm. Prior to joining Craig-Hallum in 1998, Mr. Evans has served as senior research analyst for other Minneapolis-based investment banking firms. In addition, he has prior

analyst experience with US Bank and Thomson Corporation. Mr. Evans holds an MBA from the Carlson School of Management at the University of Minnesota.

*Daniel N. Ford, Chief Financial Officer of CUI Global Inc. and Subsidiaries, age 35*

Mr. Ford has a background in accounting, including working at KPMG. As CFO of CUI for in excess of five years, Mr. Ford moved CUI into a position of profitability and he provides efficiency and forward thinking, transforming many of CUI's accounting, inventory management and vendor relations processes. During 2012, along with Mr. Clough, Mr. Ford facilitated our equity raise and uplisting to The NASDAQ Stock Market. During the first quarter of 2013, Mr. Clough and Mr. Ford facilitated a public offering that raised net proceeds in excess of \$45,000,000 and completed the purchase of Orbital Gas Systems, Ltd., an independent specialist gas control and instrumentation solutions provider located in the United Kingdom.

During his time with CUI, Mr. Ford has implemented advanced internal fixed asset tracking, implemented a “real time” inventory system and participated in implementing CUI’s ERP system. His skills as a financier have allowed CUI to acquire its current, 61,380 square foot headquarters building, to transition its banking relationships to Wells Fargo National Association, as well as to acquire CUI, Orbital and CUI Japan. Mr. Ford holds an MBA from George Fox University.

Effective November 12, 2014, a former director consented to a Cease and Desist Order and Civil Penalty relating to a violation of Rule 105 of Regulation M under the Exchange Act of 1934. This violation was unrelated to CUI Global.

## **Corporate Governance and Board of Directors Matters**

We are committed to maintaining the highest standards of business conduct and corporate governance, which we believe are essential to running our business efficiently, serving our stockholders well and maintaining our integrity in the marketplace. We have adopted a Corporate Code of Ethics and Business Conduct, a code of business conduct and ethics for employees, directors and officers (including our principal executive officer and principal financial and accounting officer). We have also adopted the following governance guides: Charter of the Audit Committee, Charter of the Compensation Committee, policy for Director Independence, Nominating Committee guide, Disclosure Controls and Procedures and, most recently adopted, Whistleblower Policy, all of which, in conjunction with our certificate of incorporation and bylaws, form the framework for our corporate governance. These corporate governance documents are available on the internet and our website at [www.CUIGlobal.com](http://www.CUIGlobal.com).

### *Our Corporate Governance Practices*

We have always believed in strong and effective corporate governance procedures and practices. In that spirit, we have summarized several of our corporate governance practices below.

### *The Board of Director’s Role in Risk Oversight*

The Board of Directors and its committees have an important role in the Company’s risk oversight, management and assessment process. The board regularly reviews with management the Company’s financial and business strategies which include a discussion of relevant material risks as appropriate. The board discusses with the Company’s outside general counsel, as appropriate, its risk oversight and assessment as well as any material risks to the Company. In addition, the board delegates risk management responsibilities to the Audit Committee and Compensation Committee, which committees are each all comprised of independent directors. The Audit Committee, as part of its charter, oversees the Company’s risk oversight, management and assessment of the Company and oversees and assesses the risks associated with the corporate governance and ethics of the Company. Risk considerations are a material aspect of the Compensation Committee. The Compensation Committee is responsible for overseeing the management of risks relating to executive compensation. In addition, the Compensation Committee also, as appropriate, assesses the risks

relating to the Company's overall compensation programs. While the Audit Committee and Compensation Committee oversee the management of the risk areas identified above, the entire board is regularly informed through committee reports about such risks. This enables the board and its committees to coordinate the risk management, assessment and oversight roles.



*Adopting Governance Guidelines*

Our Board of Directors has adopted a set of corporate governance guidelines to establish a framework within which it will conduct its business and to guide management in its running of your Company. The governance guidelines can be found on our website at [www.CUIGlobal.com](http://www.CUIGlobal.com) and are summarized below.

*Monitoring Board Effectiveness*

It is important that our Board of Directors and its committees are performing effectively and in the best interest of the Company and its stockholders. The Board of Directors and each committee are responsible for annually assessing their effectiveness in fulfilling their obligations.

*Conducting Formal Independent Director Sessions*

On a regular basis, at the conclusion of regularly scheduled board meeting, the independent directors are encouraged to meet privately, without our management or any non-independent directors.

*Hiring Outside Advisors*

The board and each of its committees may retain outside advisors and consultants of their choosing at our expense, without management's consent.

*Avoiding Conflicts of Interest*

We expect our directors, executives and employees to conduct themselves with the highest degree of integrity, ethics and honesty. Our credibility and reputation depend upon the good judgment, ethical standards and personal integrity of each director, executive and employee. In order to provide assurances to the Company and its stockholders, we have implemented standards of business conduct which provide clear conflict of interest guidelines to its employees and directors, as well as an explanation of reporting and investigatory procedures.

*Providing Transparency*

We believe that it is important that stockholders understand our governance practices. In order to help ensure transparency of our practices, we have posted information regarding our corporate governance procedures on our website at [www.CUIGlobal.com](http://www.CUIGlobal.com).

Whistleblower Policy

In furtherance of our governance transparency and ethical standards, we adopted a comprehensive Whistleblower Policy that encourages employees to report to proper authorities incorrect financial reporting, unlawful activity, activities that are not in line with CUI Global Code of Business Conduct or activities which otherwise amount to serious improper conduct. Our Whistleblower Policy is posted on our website at [www.CUIGlobal.com](http://www.CUIGlobal.com).

Accuracy of All Public Disclosure

It is the Company's policy that all public disclosure made by the Company should be accurate and complete, fairly present, in all material respects, the Company's financial condition and results of operations, and be made on a timely basis as required by applicable laws and securities exchange requirements. In order to oversee this policy, a Disclosure Committee Charter has been adopted by the Chief Executive Officer and Chief Financial Officer and ratified by our Audit Committee. You can view a copy of this document on our website at [www.CUIGlobal.com](http://www.CUIGlobal.com) or obtain a copy by making a written request to the Company at CUI Global, Inc., 20050 SW 112<sup>th</sup> Avenue, Tualatin, Oregon 97062, phone (503) 612-2300.

Communications with the Board of Directors

Stockholders may communicate with the Board of Directors by writing to the Company at CUI Global, Inc., 20050 SW 112<sup>th</sup> Avenue, Tualatin, Oregon 97062, phone (503) 612-2300. Stockholders who would like their submission directed to a member of the board may so specify and the communication will be forwarded as appropriate.

Standards of Business Conduct

The Board of Directors has adopted a Code of Ethics and Business Conduct for all of our employees and directors, including the Company's principal executive and senior financial officers. You can obtain a copy of these documents on our website at [www.CUIGlobal.com](http://www.CUIGlobal.com) or by making a written request to the Company at CUI Global, Inc., 20050 SW 112<sup>th</sup> Avenue, Tualatin, Oregon 97062, phone (503) 612-2300. We will disclose any amendments to the Code of Ethics and Business Conduct or waiver of a provision therefrom on our website at [www.CUIGlobal.com](http://www.CUIGlobal.com).

Ensuring Auditor Independence

We have taken a number of steps to ensure the continued independence of our independent registered public accounting firm. That firm reports directly to the Audit Committee, which also has the ability to pre-approve or reject any non-audit services proposed to be conducted by our independent registered public accounting firm.

**Committees of the Board and Meetings**

At December 31, 2014, our Board of Directors consists of seven directors. Five of our seven directors are “independent” as defined in Rule 5605(a)(2) of The NASDAQ Stock Market. Our Board of Directors has the following standing committees: Audit Committee, Nominating Committee, Compensation Committee and Disclosure Committee. Each of the committees operates under a written charter adopted by the Board of Directors. All of the committee charters are available on our website at [www.CUIGlobal.com](http://www.CUIGlobal.com).

**Audit Committee**

The Audit Committee is established pursuant to the Sarbanes-Oxley Act of 2002 for the purposes of overseeing the company's accounts and financial reporting processes and audits of its financial statements. The Audit Committee reviews the financial information that will be provided to the Stockholders and others, the systems of internal controls established by management and the board and the independence and performance of the Company's audit process. The Audit Committee is directly responsible for, among other things, the appointment, compensation, retention and oversight of our independent registered public accounting firm, review of financial reporting, internal company processes of business/financial risk and applicable legal, ethical and regulatory requirements. During 2014, the Audit Committee held five formal meetings.

At December 31, 2014, the Audit Committee is comprised of Sean P. Rooney, Chairman, and Thomas A. Price, Deputy Chairman and Robert J. Evans, committee member. Mr. Robert J. Evans resigned from the Audit Committee, effective January 8, 2015. Mr. Evans was replaced on the Audit Committee by Corey A. Lambrecht. Messers Rooney, Price, Evans and Lambrecht are independent in accordance with Rule 10A-3 under the Securities Exchange Act of 1934 and Rule 5605(a)(2) of The NASDAQ Stock Market.

Audit Committee Report

THE FOLLOWING REPORT OF THE AUDIT COMMITTEE DOES NOT CONSTITUTE SOLICITING MATERIAL AND SHOULD NOT BE DEEMED FILED OR INCORPORATED BY REFERENCE INTO ANY OTHER COMPANY FILING UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES EXCHANGE ACT OF 1934, EXCEPT TO THE EXTENT THE COMPANY SPECIFICALLY INCORPORATES THIS REPORT BY REFERENCE THEREIN.

Audit Committee Report

The Audit Committee reviews the financial information that will be provided to the stockholders and others, the systems of internal controls established by management and the board and the independence and performance of the Company's audit process.

The Audit Committee has:

1. Reviewed and discussed with management the audited consolidated financial statements included in the Company's Annual Report on Form 10-K and the most recent Quarterly Report on Form 10-Q
2. Discussed with Perkins & Company, P.C., the Company's independent auditors, the matters required to be discussed by Statement on Auditing Standards No. 16, *Communication with Audit Committees*, as adopted by the Public Company Accounting Oversight Board
3. Received the written disclosures and letter from Perkins & Company, P.C. as required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence and has discussed with Perkins & Company, P.C. its independence from CUI Global
4. Discussed with Perkins & Company, P.C. its independence

Based on these reviews and discussions, the Audit Committee has recommended that the audited consolidated financial statements are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The Audit Committee has also considered whether the amount and nature of non-audit services provided by Perkins & Company, P.C. is compatible with the auditor's independence and determined that it is compatible.

Submitted by: Audit Committee by

Sean P. Rooney

Thomas A. Price

Corey A. Lambrecht

\*Mr. Robert J. Evans resigned from the Audit Committee, effective January 8, 2015.

### **Nominating Committee**

The nominating committee consists of all of the members of the Board of Directors who are "independent directors" within the meaning of Rule 5605(a)(2) of The NASDAQ Stock Market. The nominating committee is responsible for the evaluation of nominees for election as director, the nomination of director candidates for election by the stockholders and evaluation of sitting directors. The board has developed a formal policy for the identification and evaluation of nominees, *Charter of the Nominating Committee of the Board of Directors*, which can be reviewed on our website at [www.CUIGlobal.com](http://www.CUIGlobal.com). In general, when the board determines that expansion of the board or replacement of a director is necessary or appropriate, the nominating committee will review, through candidate interviews with members of the board and management, consultation with the candidate's associates and through other means, a candidate's honesty, integrity, reputation in and commitment to the community, judgment, personality and thinking style, willingness to invest in the Company, residence, willingness to devote the necessary time, potential conflicts of interest, independence, understanding of financial statements and issues, and the willingness and ability to engage in meaningful and constructive discussion regarding Company issues. The committee reviews any special expertise, for example, that qualifies a person as an audit committee financial expert, membership or influence in a particular geographic or business target market, or other relevant business experience. To date the Company has not paid any fee to any third party to identify or evaluate, or to assist it in identifying or evaluating, potential director candidates.

The nominating committee considers director candidates nominated by stockholders during such times as the Company is actively considering obtaining new directors. Candidates recommended by stockholders will be evaluated based on the same criteria described above. Stockholders desiring to suggest a candidate for consideration should send a letter to the Company's secretary and include: (a) a statement that the writer is a shareholder (providing evidence if the person's shares are held in street name) and is proposing a candidate for consideration; (b) the name and contact information for the candidate; (c) a statement of the candidate's business and educational experience; (d) information regarding the candidate's qualifications to be director, including but not limited to an evaluation of the factors discussed above which the board would consider in evaluating a candidate; (e) information regarding any relationship or understanding between the proposing shareholder and the candidate; (f) information regarding potential conflicts of interest and (g) a statement that the candidate is willing to be considered and willing to serve as director if nominated and elected. Because of the small size of the Company and the limited need to seek additional directors, there is no assurance that all shareholder proposed candidates will be fully considered, that all candidates will be considered equally or that the proponent of any candidate or the proposed candidate will be contacted by the Company or the board and no undertaking to do so is implied by the willingness to consider candidates proposed by stockholders.

### **Disclosure Committee**

We have formed a Disclosure Committee, which has been adopted by our CEO and CFO (“Principal Officers”) and ratified by our Audit Committee. The Disclosure Committee assists our Principal Officers in fulfilling their responsibility for oversight of the accuracy, completeness and timeliness of our public disclosures including, but not limited to our SEC filings, press releases, correspondence disseminated to security holders, presentations to analysts and release of financial information or earnings guidance to security holders or the investment community. The Disclosure Committee consists of our Principal Officers, the individual or representative of the firm primarily charged with investor/public relations, the Audit Committee Chairman and outside SEC counsel. Our CEO is Chairman of the committee. Our Senior Officers may replace or add new members from time to time. Our Senior Officers have the option to assume all the responsibilities of this committee or designate a committee member, who shall be a person with expertise in SEC and SRO rules and regulations with respect to disclosure, who shall have the power, acting together with our Senior Officers, to review and approve disclosure statements when time or other circumstances do not permit the full committee to meet. You may review the full text of our Disclosure Committee Charter on our website, [www.CUIGlobal.com](http://www.CUIGlobal.com), under the link, governance.

Generally, the committee serves as a central point to which material information should be directed and a resource for people who have questions regarding materiality and the requirement to disclose. In discharging its duties, the committee has full access to all Company books, records, facilities and personnel, including the Board of Directors, Audit Committee, independent public accountants and outside counsel.

## Compensation Committee

The Compensation Committee discharges the board's responsibilities relating to general compensation policies and practices and to compensation of our executives. In discharging its responsibilities, the Compensation Committee establishes principles and procedures in order to ensure to the board and the shareholders that the compensation practices of the Company are appropriately designed and implemented to attract, retain and reward high quality executives and are in accordance with all applicable legal and regulatory requirements. In this context, the Compensation Committee's authority, duties and responsibilities are:

- To annually review the Company's philosophy regarding executive compensation.

- To periodically review market and industry data to assess the Company's competitive position, and to retain any compensation consultant to be used to assist in the evaluation of directors' and executive officers' compensation.

- To establish and approve the Company goals and objectives, and associated measurement metrics relevant to compensation of the Company's executive officers

- To establish and approve incentive levels and targets relevant to compensation of the executive officers.

- To annually review and make recommendations to the board to approve, for all principal executives and officers, the base and incentive compensation, taking into consideration the judgment and recommendation of the Chief Executive Officer for the compensation of the principal executives and officers.

- To separately review, determine and approve the Chief Executive Officer's applicable compensation levels based on the Committee's evaluation of the Chief Executive Officer's performance in light of the Company's and the individual goals and objectives.

- To periodically review and make recommendations to the board with respect to the compensation of directors, including board and committee retainers, meeting fees, equity-based compensation and such other forms of compensation as the Compensation Committee may consider appropriate.

- To administer and annually review the Company's incentive compensation plans and equity-based plans.

- To review and make recommendations to the board regarding any executive employment agreements, any proposed severance arrangements or change in control and similar agreements/provisions, and any amendments, supplements or waivers to the foregoing agreements, and any perquisites, special or supplemental benefits.

- To review and discuss with management, the Compensation Discussion and Analysis (CD&A), and determine the Committee's recommendation for the CD&A's inclusion in the Company's annual report filed with the SEC on Form 10-K and proxy statement on Schedule 14A.

- The Committee may, in its sole discretion, retain or obtain the advice of a compensation consultant, legal counsel or other adviser.

- The Committee shall be directly responsible for the appointment, compensation and oversight of the work of any compensation consultant, legal counsel and other adviser retained by the Committee. The Company must provide for appropriate funding, as determined by the Committee, for payment of reasonable compensation to a compensation consultant, legal counsel or any other adviser retained by the Committee.



The Committee may select, or receive advice from, a compensation consultant, legal counsel or other adviser to the Committee, other than in-house legal counsel, only after taking into consideration the following factors:

- (i) the provision of other services to the Company by the person that employs the compensation consultant, legal counsel or other adviser;
- (ii) the amount of fees received from the Company by the person that employs the compensation consultant, legal counsel or other adviser, as a percentage of the total revenue of the person that employs the compensation consultant, legal counsel or other adviser;
- (iii) the policies and procedures of the person that employs the compensation consultant, legal counsel or other adviser that are designed to prevent conflicts of interest;
- (iv) any business or personal relationship of the compensation consultant, legal counsel or other adviser with a member of the Committee;
- (v) any stock of the Company owned by the compensation consultant, legal counsel or other adviser; and
- (vi) any business or personal relationship of the compensation consultant, legal counsel, other adviser or the person employing the adviser with an executive officer of the Company.

The Committee is not required to implement or act consistently with the advice or recommendations of the compensation consultant, legal counsel or other adviser to the Committee.

#### Compensation Committee Members

The Compensation Committee of the Board of Directors is appointed by the Board of Directors to discharge the board's responsibilities with respect to all forms of compensation of the Company's executive officers, to administer the Company's equity incentive plans and to produce an annual report on executive compensation for use in the Company's Form 10-K and the proxy statement on Schedule 14A. At December 31, 2014, the Compensation Committee consists of two members of the board of directors, Messers Corey A. Lambrecht and Paul D. White, both of whom are "independent directors" within the meaning of Rule 5605(a) (2) of the NASDAQ Stock Market.

#### Committee Meetings

Our Compensation Committee meets formally and informally as often as necessary to perform its duties and responsibilities. The Compensation Committee held one formal meeting during fiscal 2014. On an as requested basis, our Compensation Committee receives and reviews materials prepared by management, consultants or committee members, in advance of each meeting. Depending on the agenda for the particular meeting, these materials may include:

- Minutes and materials from the previous meeting(s);
- Reports on year-to-date Company financial performance versus budget;
- Reports on progress and levels of performance of individual and Company performance objectives;
- Reports on the Company's financial and stock performance versus a peer group of companies;
- Reports from the Committee's compensation consultant regarding market and industry data relevant to executive officer compensation;
- Reports and executive compensation summary worksheets, which sets forth for each executive officer: current total compensation and incentive compensation target percentages, current equity ownership holdings and general partner ownership interest and current and projected value of each and all such compensation elements, including distributions and dividends therefrom, over a five year period.



Compensation Committee Charter

Our Compensation Committee Charter is posted on our website at [www.CUIGlobal.com](http://www.CUIGlobal.com).

Compensation Committee Interlocks and Insider Participation

None of the members of the Company's Compensation Committee is or has at any time during the last completed fiscal year been an officer or employee of the Company. None of the Company's executive officers has served as a member of the board of directors, or as a member of the compensation or similar committee, of any entity that has one or more executive officers who served on the Company's board of directors or Compensation Committee during the last completed fiscal year.

Compensation Committee Report

We have reviewed and discussed the Compensation Discussion and Analysis with management and based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and the proxy statement on Schedule 14A for the 2015 Annual Meeting of Shareholders.

Submitted by: Compensation Committee by  
Corey A. Lambrecht, Chairman

Paul D. White

**Item 11. Executive Compensation**

**Compensation Discussion and Analysis**

General Philosophy

Our compensation philosophy is based on the premise of attracting, retaining and motivating exceptional leaders, setting high goals, working toward the common objectives of meeting the expectations of customers and stockholders and rewarding outstanding performance. Following this philosophy, in determining executive compensation, we consider all relevant factors, such as the competition for talent, our desire to link pay with performance, the use of equity to align executive interests with those of our stockholders, individual contributions, teamwork and performance, each executive's total compensation package and internal pay equity. We strive to accomplish these

objectives by compensating all employees with total compensation packages consisting of a combination of competitive base salary and incentive compensation.

*Pay for Performance*

At the core of our compensation philosophy is our strong belief that pay should be directly linked to performance. We believe in a pay for performance culture that places a significant portion of executive officer total compensation as contingent upon, or variable with, individual performance, Company performance and achievement of strategic goals including increasing shareholder value.

The performance based compensation for our executives may be in the form of (i) annual cash incentives to promote achievement of, and accountability for, shorter term performance plans and strategic goals and (ii) equity grants, designed to align the long-term interests of our executive officers with those of our shareholders, by creating a strong and direct link between executive compensation and shareholder return over a multiple year performance cycle. Long term incentive equity awards are granted in restricted stock or stock options. These awards generally vest over a two to four year period. This opportunity for share ownership was provided in order to provide incentive and retain key employees and align their interests with our long term strategic goals.

Base Compensation to be Competitive within Industry

A key component of an executive's total compensation base salary is designed to compensate executives commensurate with their respective level of experience, scope of responsibilities, sustained individual performance and future potential. The goal has been to provide for base salaries that are sufficiently competitive with other similar-sized companies, both regionally and nationally, in order to attract and retain talented leaders.

**Compensation Setting Process**

Management's Role in the Compensation Setting Process.

Management plays a significant role in the compensation-setting process. The most significant aspects of management's role are:

- Assisting in establishing business performance goals and objectives;
- Evaluating employee and Company performance;
- CEO recommending compensation levels and awards for executive officers;
- Implementing the board approved compensation plans; and
- Assistance in preparing agenda and materials for the Committee meetings.

The Chief Executive Officer generally attends the Committee meetings; however, the Committee also regularly meets in executive session. The Chief Executive Officer makes recommendations with respect to financial and corporate goals and objectives and makes non CEO executive compensation recommendations to the Compensation Committee based on Company performance, individual performance and the peer group compensation market analysis. The Compensation Committee considers and deliberates on this information and in turn makes recommendations to the Board of Directors, for the board's determination and approval of the executives' and other members of senior management's compensation, including base compensation, short-term cash incentives and long-term equity incentives. The Chief Executive Officer's performance and compensation is reviewed, evaluated and established separately by the Compensation Committee and ratified and approved by the Board of Directors.

Setting Compensation Levels

To evaluate our total compensation is competitive and provides appropriate rewards to attract and retain talented leaders, as discussed above, we may rely on analyses of peer companies performed by independent compensation consultants and on other industry and occupation specific survey data available to us. Our general benchmark is to establish both base salary and total compensation for the executive officers at or near the compensation of peer group data, recognizing that a significant portion of executive officer total compensation should be contingent upon, or variable with, achievement of individual and Company performance objectives and strategic goals, as well as being variable with stockholder value. Further, while the objective for base salary is at that of peer group data, executives' base salaries are designed to reward core competencies and contributions to the Company and may be increased above this general benchmark based on (i) the individual's increased contribution over the preceding year; (ii) the individual's

increased responsibilities over the preceding year; and (iii) any increase in median competitive pay levels.

Setting Performance Objectives

The Company's business plans and strategic objectives are generally presented by management annually to the Board of Directors. The board engages in an active discussion concerning the financial targets, the appropriateness of the strategic objectives and the difficulty in achieving the same. In establishing the compensation plan, our Compensation Committee then utilizes the primary financial objectives from the adopted business plan and operating cash flow as the primary targets for determining the executive officers' short-term cash incentives and long term equity incentive compensation. The Committee also establishes additional non-financial performance goals and objectives, the achievement of which is required for funding of a significant portion, approximately twenty five percent, of the executive officers' incentive compensation. In 2014, these non-financial performance goals and objectives included the continued integration of Orbital Gas Systems Limited; identification and signing of third party sales representative agencies to support the expansion within the global natural gas market, continued expansion of sales through the distribution channel for CUI, Inc. products; continued product development and new product introductions; and general and administrative expense management. In addition, such factors as revenue growth and new product adoption were and are considered in setting compensation levels.

Annual Evaluation

The Chief Executive Officer recommends the actual incentive award amounts for all other executives based on actual Company performance relative to the targets set as well as on individual performance and recommends the executives' base salaries levels for the coming year. The Compensation Committee considers these recommendations generally following the end of each fiscal year in determining its recommendations to the Board of Directors for the final short-term cash incentive and long-term equity award amounts for each executive and for the executive's base salary levels. The actual incentive amounts awarded to each executive are ultimately subject to the discretion of the Compensation Committee and the Board of Directors.

Voting Results on Executive Compensation (Say-on-Pay) Advisory Vote

As required by Section 14A of the Exchange Act, under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Compensation Committee considers the prior year shareholder advisory vote on the compensation of the Named Executive Officers as appropriate in making compensation decisions. At the annual meeting of shareholders held November 24, 2014, more than 96% percent of the shareholders present and voting on the proposal approved, on an advisory basis, the compensation disclosed in the Company's proxy statement for the meeting filed with the Securities and Exchange Commission on September 16, 2014. As a result, the Compensation Committee concluded that the Company's shareholders were supportive of the Company's executive compensation philosophy, policies and programs and the Compensation Committee will continue to reach out to shareholders regarding compensation matters. The Compensation Committee determined to continue such philosophy, policies and programs, with such updates and modifications as appropriate for changing circumstances.

Special Evaluation

Additional equity-based awards may be also granted to executives, as well as other employees, upon commencement of employment, for promotions or special performance recognition or for retention purposes, based on the recommendation of the Chief Executive Officer. In determining whether to recommend additional grants to an executive, the Chief Executive Officer typically considers the individual's performance and any planned change in functional responsibility.

## **Elements of Executive Compensation**

### Total Compensation

Total compensation for our executives consists of three elements: (i) base salary; (ii) incentive cash award based on achieving specific performance targets as measured by cash flow and other objectives and (iii) equity incentive award, which is also performance based and paid out over a future period in the form of restricted stock or stock purchase options. Base salaries are the value upon which both the incentive compensation percentage targets are measured against. For evaluation and comparison of overall compensation of the executives and to assist it in making its compensation decisions, the Compensation Committee reviews an executive compensation summary, which sets forth for each executive: current compensation and current equity ownership holdings as well as the projected value of each and all such compensation elements, including distributions and dividends therefrom.



### Base Salaries

Base salaries are designed to compensate executives commensurate with their respective level of experience, scope of responsibilities and to reward sustained individual performance and future potential. The goal has been to provide for base salaries that are sufficiently competitive with other similar-sized companies, both regionally and nationally, in order to attract and retain talented leaders.

### Incentive Compensation

Incentive compensation is intended to align compensation with business objectives and performance and enable the Company to attract, retain and reward high quality executive officers whose contributions are critical to short and long-term success of the Company. The executives' incentive awards are based upon three key performance metrics: (i) the Company's EBIDTA; (ii) achievement of agreed-upon strategic and corporate performance goals; and (iii) existing Employment Agreement.

The strategic and corporate performance goals are not intended to be a specific agreed-upon goal, but rather a general objective. Management and the board of directors discuss these factors and set objectives that are dynamic and change periodically. In setting these periodic goals, the board of directors discusses with management the nature of the objective and management's proposed method of achieving the goal. These goals change throughout the operational process because of changing dynamics such as economic conditions, current success of marketing, availability of materials, availability of funding and overall momentum toward achieving the goal.

### Incentive Plan Compensation

Incentive awards are paid out in cash, restricted common stock or option awards. The incentive award targets for the executives are established at the beginning of the year, generally, as a percentage of their base salary and the actual awards are determined at the following year's annual board of directors meetings based on actual Company performance relative to established goals and objectives, as well as on evaluation of the executive's relevant departmental and individual performance during the past year. In many instances the award of restricted common stock vests over a four year term in equal periodic tranches. The award of restricted common stock purchased through options generally, although not in every instance, vests immediately upon exercise of the option and generally has a validity of up to ten years and a per share purchase price of no less than the fair market value of our common stock on the date of grant. The awards are intended to serve as a means of incentive compensation for performance.

### Retirement Plans

Our wholly owned subsidiary, CUI, Inc., maintains a 401(k) plan. The Company has a 401(k) retirement savings plan that allows employees to contribute to the plan after they have completed 2 months of service and are 21 years of age. The Company matches the employee's contribution up to 6% of total compensation. CUI, Inc. made total employer contributions, net of forfeitures, of \$271,813, \$245,594 and \$215,118 for 2014, 2013 and 2012, respectively.



In addition, our wholly owned subsidiary, Orbital Gas Systems, Ltd., operates a defined contribution retirement benefit plan for employees who have been employed with the company at least 12 months and who chose to enroll in the plan. Orbital Gas Systems, Ltd. contributes to its plan the equivalent of 5% of the employee's salary and the employee has the option to contribute pre-tax earnings. Orbital made total employer contributions of \$255,773 during 2014 and \$106,121 during the period from April 1, 2013 thru December 31, 2013.

#### Change in Control Agreements

Our executives are awarded protection upon a change in control as specifically provided in their employment contracts. The Chief Executive Officer contract includes a provision for a three year severance package upon termination. The Chief Financial Officer and Chief Operations Officer contracts include a provision for an eighteen month severance package upon termination.

#### Perquisites

The Company does not provide for any perquisites or any other benefits for its senior executives that are not generally available to all employees.

#### Employment Agreements

During fiscal year 2014, three executive officers were employed under employment agreements. Those executive officers are:

- Chief Executive Officer and General Counsel  
· President of CUI, Inc., a wholly owned subsidiary of CUI Global, Inc.
- Chief Financial Officer of CUI Global, Inc. and CUI, Inc., a wholly owned subsidiary of CUI Global, Inc.

To see the material terms of each named executive officer's employment agreement, please see the footnotes to the Summary Compensation Table.

#### Summary Compensation Table

The following table sets forth the compensation paid and accrued to be paid by the Company for the fiscal years 2014, 2013 and 2012 to the Company's Chief Executive Officer, Chief Financial Officer and President of CUI, Inc.

#### **Summary Compensation Table**

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Name and Principal Position	Year	Salary (\$)	Stock Awards (\$)	Option Awards (\$) (10) (11)	Non-equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
William J. Clough, CEO /	2014	478,400(2)	-	- (3)	276,000	(2) 19,995	774,395
President / Counsel /	2013	405,000(2)	-	370,072(3)	206,250	(2) 18,839	1,000,161
Director (1)	2012	337,500(2)	160,080(2)	848,599(3)	204,920	(2) 17,860	1,568,959
Daniel N. Ford, CFO (4)	2014	260,000(5)	-	- (6)	113,542	(5) 35,733	409,275
	2013	222,500(5)	-	185,036(6)	97,500	(5) 36,339	541,375
	2012	195,000(5)	51,120 (5)	27,451 (6)	160,130	(5) 34,860	468,561
Matthew M. McKenzie, COO / President of CUI, Inc. / Director (7)	2014	260,000(8)	-	- (9)	223,958	(8) 36,208	520,166
	2013	227,500(8)	-	92,518 (9)	102,500	(8) 36,339	458,857
	2012	205,000(8)	32,400 (8)	40,093 (9)	147,808	(8) 34,860	460,161

**Footnotes:**

Mr. Clough joined the Company on September 1, 2005. Effective September 13, 2007, Mr. Clough was appointed  
 1. CEO/President of CUI Global and Chief Executive Officer of CUI, Inc., a wholly owned subsidiary of the Company.

Mr. Clough is employed under a multi-year employment contract with the Company, which was extended to run to and through December 31, 2016. Said contract provides, in relevant part, for an annual salary of \$460,000 which became effective July 1, 2013 and includes bonus provisions for each calendar year and entitles Mr. Clough to a two year severance package and an annual 4% cost of living adjustment. Bonuses are approved quarterly based on  
 2. various performance-related factors and an evaluation of current performance. All such bonus payments shall be paid to Mr. Clough in equal monthly installments following the period in which the bonus is earned and shall be paid on the 15th day of each month. During 2013, in accordance with the bonus provisions of his employment contract, Mr. Clough received 33,350 shares of common stock with a fair value of \$160,080. At December 31, 2014 and 2013, there was an accrual of \$14,167 and \$14,167, respectively, for compensation owed to Mr. Clough. Effective June 24, 2013, Mr. Clough received a bonus option to purchase 200,000 common shares within ten years from date of issuance, at a price of \$6.25 per share that vests one third each year over 3 years. Under the terms of Mr. Clough's contract extension, effective September 21, 2012, Mr. Clough received a bonus option to purchase  
 3. 330,000 common shares, within ten years from date of issuance, at a price of \$6.00 per share that vests in equal monthly installments over 4 years. Effective April 16, 2012, Mr. Clough received a bonus option to purchase 37,177 common shares, within ten years from date of issuance, at a price of \$4.56 per share that vests over 4 years: 25% at year one and thereafter in equal monthly installments.

Mr. Ford joined the Company May 15, 2008 as Chief Financial Officer of CUI Global and CUI, Inc., a wholly  
 4. owned subsidiary of the Company.

Mr. Ford is employed under a three year employment contract with the Company, which was extended to December 31, 2015 and provides, in relevant part, for an annual salary of \$250,000 effective July 1, 2013, an annual 4% cost of living adjustment, an eighteen month severance package and bonus provisions up to one hundred twenty-five percent of base salary to be based on performance objectives, goals and milestones for each calendar year including revenue and EBITDA performance. The bonus includes a discretionary bonus of up to twenty-five percent of salary based upon the reasonable judgment of the compensation committee. Employee has the ability to earn a larger bonus based on the performance criteria set forth and the reasonable judgment and discretion of the compensation committee. Previous to July 1, 2013, Mr. Ford's employment contract provided, in relevant part, for an annual salary of \$195,000 and bonus provisions for each calendar year, in which the CUI Global year end Statement of Operations shows a Net Profit and the Gross Revenue equal to or that exceeds fifteen percent (15%), but less than  
 5. thirty percent (30%), of the immediate preceding calendar year, he shall be entitled to receive a cash bonus in an amount equal to fifty percent (50%) of his prior year base salary in addition to any other compensation to which he may be entitled; provided, however, that he shall be entitled to the bonus only if he has been employed by the Company during that entire calendar year. In substitution of the bonus percentages described above, he shall be entitled to receive, in any year in which annual Gross Revenue exceeds by 30% of the prior calendar year gross revenue, a sum equal to 100% of his prior year base salary. Bonuses are approved quarterly based on the above factors and an evaluation of current performance. All such bonus payments shall be paid to Mr. Ford in equal monthly installments following the period in which the bonus is earned and shall be paid on the 15th day of each month. During 2012, in accordance with the bonus provisions of his employment contract, Mr. Ford received 10,650 shares of common stock with a fair value of \$51,120. At December 31, 2014 and 2013 there was an accrual of \$10,417 and \$8,125, respectively, for compensation owed to Mr. Ford.

- Effective June 24, 2013, Mr. Ford received a bonus option to purchase 100,000 common shares within ten years from date of issuance, at a price of \$6.25 per share that vests one third each year over 3 years. Effective April 16, 2012, Mr. Ford received a bonus option to purchase 12,598 common shares, within ten years from date of issuance, at a price of \$4.56 per share that vests over 4 years: 25% at year one and thereafter in equal monthly installments.
6. Mr. McKenzie joined the Company May 15, 2008 as Chief Operating Officer of CUI Global and President and Chief Operating Officer of CUI, Inc., a wholly owned subsidiary of the Company.
7. Mr. McKenzie is employed under a three year employment contract with the Company, which was extended to December 31, 2015 and provides, in relevant part, for an annual salary of \$250,000 effective July 1, 2013, an annual 4% cost of living adjustment, an eighteen month severance package and bonus provisions up to one hundred twenty-five percent of base salary to be based on performance objectives, goals, and milestones for each calendar year, including adjusted EBITDA performance in the power and electro-mechanical segment. The bonus includes a discretionary bonus of up to twenty-five percent of salary based upon the reasonable judgment of the compensation committee. Employee has the ability to earn a larger bonus based on the performance criteria set forth and the reasonable judgment and discretion of the compensation committee. Bonuses are approved quarterly based on the above factors and an evaluation of current performance. Previous to July 1, 2013, Mr. McKenzie's employment contract provided, in relevant part, for an annual salary of \$205,000 and bonus provisions for each calendar year in which the CUI Global year end Statement of Operations shows a Net Profit and the Gross Revenue equal to or that 8. exceeds fifteen percent (15%), but less than thirty percent (30%), of the immediate preceding calendar year, he shall be entitled to receive a cash bonus in an amount equal to fifty percent (50%) of his prior year base salary in addition to any other compensation to which he may be entitled; provided, however, that he shall be entitled to the bonus only if he has been employed by the Company during that entire calendar year. In substitution of the bonus percentages described above, he shall be entitled to receive, in any year in which annual Gross Revenue exceeds by 30% of the prior calendar year gross revenue, a sum equal to 100% of his prior year base salary. Bonuses are approved quarterly based on the above factors and an evaluation of current performance. All such bonus payments shall be paid to Mr. McKenzie in equal monthly installments following the period in which the bonus is earned and shall be paid on the 15th day of each month. During 2012, in accordance with the bonus provisions of his employment contract, Mr. McKenzie received 6,750 shares of common stock with a fair value of \$32,400. At December 31, 2014 and 2013 there was an accrual of \$18,750 and \$8,542, respectively, for compensation owed to Mr. McKenzie
9. Effective June 24, 2013, Mr. McKenzie received a bonus option to purchase 50,000 common shares within ten years from date of issuance, at a price of \$6.25 per share that vests one third each year over 3 years. Effective April 16, 2012, Mr. McKenzie received a bonus option to purchase 15,100 common shares as COO, within ten years from date of issuance, at a price of \$4.56 per share that vests over 4 years: 25% at year one and thereafter in equal monthly installments.
10. As of December 31, 2014, William J. Clough, CEO/Director held 558,085 outstanding options, Matthew M. McKenzie, COO/Director held 112,796 outstanding options which includes shares owned by his spouse and Daniel N. Ford, CFO held 137,794 outstanding options.

Please see the disclosure of assumptions made in the valuation of the option awards included in Note 12 of Notes 11. to Consolidated Financial Statements, Stockholders' Equity in the Company's financial statements included with this proxy statement.

Outstanding Equity Awards at Fiscal Year End

The following table sets forth the outstanding equity awards at December 31, 2014 to each of the named executive officers:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

Name	Number of	Number of	Option Exercise Price (\$)	Option Expiration
	Securities Underlying Unexercised Options (#) Exercisable	Securities Underlying Unexercised Options (#) Unexercisable		
Matthew M. McKenzie (1)	15,100	0	7.50	1/1/2019
Matthew M. McKenzie (1)	8,100	0	7.50	1/1/2019
Daniel N. Ford (1)	12,598	0	7.50	1/1/2019
William J. Clough (2)	5,422	0	9.00	10/11/2020
Matthew M. McKenzie (2)	15,100	0	9.00	10/11/2020
Matthew M. McKenzie (2)	3,300	0	9.00	10/11/2020
Daniel N. Ford (2)	12,598	0	9.00	10/11/2020
William J. Clough (3)	17,954	1,409	4.56	4 /16/2022
William J. Clough (3)	3,300	0	4.56	4 /16/2022
Matthew M. McKenzie (3)	14,528	572	4.56	4 /16/2022
Matthew M. McKenzie (3)	3,300	0	4.56	4 /16/2022
Daniel N. Ford (3)	12,120	478	4.56	4 /16/2022
William J. Clough (4)	192,500	137,500	6.00	9 /21/2022
William J. Clough (5)	66,000	134,000	6.25	6 /24/2023
Matthew M. McKenzie (5)	16,500	33,500	6.25	6 /24/2023
Daniel N. Ford (5)	33,000	67,000	6.25	6 /24/2023

Footnotes:

Effective January 1, 2009, Mr. McKenzie and Mr. Ford received fully vested bonus options to purchase 15,100, and 12,598 common shares, respectively, within ten years from date of issuance, at a price of \$7.50 per share. Also effective January 1, 2009, for service as a director of the Company, Mr. McKenzie received an option to purchase 1. 4,800 common shares at a price of \$7.50 within ten years from date of issuance that vests over four years, 25% after the first year and in equal monthly installments over the balance of the four year term and an option to purchase 3,300 common shares at a price of \$7.50 per share that vests one year after issuance.

2. Effective October 11, 2010, Mr. Clough, Mr. McKenzie and Mr. Ford received bonus options to purchase 37,177 (5,422 remaining outstanding), 15,100 and 12,598 common shares, respectively, within ten years from date of issuance, at a price of \$9.00 per share that vests over 4 years: 25% at year one and thereafter

in equal monthly installments. Additionally, effective October 11, 2010, for service as a director of the Company, Mr. McKenzie received an option to purchase 3,300 common shares at a price of \$9.00 per share that vest one year after issuance.



Effective April 16, 2012, Mr. Clough, Mr. McKenzie and Mr. Ford received bonus options to purchase 37,177 (19,363 remaining outstanding), 15,100 and 12,598 common shares, respectively, within ten years from date of issuance, at a price of \$4.56 per share that vests over 4 years: 25% at year one and thereafter in equal monthly installments. Additionally, effective April 16, 2012, for their service as directors of the Company, Mr. Clough and Mr. McKenzie received an option to purchase 3,300 common shares at a price of \$4.56 per share that vests one year after issuance.

Effective September 21, 2012, under the terms of his contract extension, Mr. Clough received a bonus option to purchase 330,000 common shares, within ten years from date of issuance, at a price of \$6.00 per share that vests in equal monthly installments over 4 years.

Effective June 24, 2013 Mr. Clough, Mr. McKenzie and Mr. Ford received bonus options to purchase 200,000, 50,000 and 100,000 common shares, respectively, within ten years from date of issuance, at a price of \$6.25 per share that vests one third per year over three years.

## Director Compensation

For 2014, each of our directors received the following compensation pursuant to our director compensation plan:

Each non-employee director serving as of January 1, 2014 received 10,000 stock purchase options granted January 1, 2014 that vest one year from grant at a strike price of \$6.92 (set by using 10% above the Nasdaq Stock Market closing price per share on the date of grant).

2. Directors receive annual compensation of \$33,000.

A non-employee chairperson receives an additional \$10,000.

The Audit Committee chairperson receives \$20,000 and each committee member receives \$9,500.

The Compensation Committee chairperson receives \$12,500 and the committee member receives \$6,000.

At the election of each director, all or any portion of the cash compensation may be converted to stock purchase options calculated by using the strike price of ten percent (10%) above the Nasdaq Stock Market closing price per share on the date of grant.

Paul D. White and Robert J. Evans were appointed to the CUI Global Board of Directors, effective April 2, 2014 and each was elected to a one year term. Mr. White was appointed to the Compensation Committee and Mr. Evans was appointed to the Audit Committee. For 2014, they received a pro rata share of the above compensation based on their director and committee positions. Additionally, Mr. White and Mr. Evans received:

They each received initial board member compensation in the form of seven thousand five hundred (7,500) shares of restricted common stock granted August 31, 2014 the balance in two equal annual installments to be issued January 1, 2015 and January 1, 2016.

They each received equity compensation in the form of seven thousand five hundred (7,500) stock purchase options granted August 31, 2014 that shall vest one (1) year from the grant date. The strike price is set at \$8.15, ten percent (10%) above the Nasdaq Stock Market closing price per share on the date of grant.

Mr. Evans resigned from the Board of Directors, effective January 8, 2015; the 2,500 share January 1, 2016 equity grant is forfeited.

### Director Compensation Table

The following table sets forth the compensation of the non-employee directors for the fiscal year ending December 31, 2014.

### Director Compensation Table

Name and Principal Position	Year	Fees earned or paid in cash (\$) <sup>(2)</sup>	Stock Awards (\$)	Option Awards (\$) <sup>(1)</sup>	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total Compensation (\$)
Robert J. Evans (former Director)	2014	31,875	18,525	27,730	-	-	-	78,130
Colton R. Melby (former Chairman)	2014	-	-	60,350	-	-	-	60,350
Corey A. Lambrecht	2014	45,500	-	18,568	-	-	-	64,068
Paul D. White	2014	19,500	28,275	27,730	-	-	-	75,505
Sean P. Rooney	2014	26,500	-	56,421	-	-	-	82,921
Thomas A. Price	2014	31,875	10,633	18,568	-	-	-	61,076

#### Footnotes:

1. Each non-employee director as of January 1, 2014 was granted 10,000 stock purchase options at a strike price of \$6.92 per share.

2. For 2014, each non-employee director compensation in the form of cash or options with a fair value as follows: board member fee of \$33,000, Chairman fee of \$10,000, audit committee member fee of \$9,500, audit committee chair fee of \$20,000, compensation committee member fee of \$6,000 and compensation committee chair fee of \$12,500. No meeting fee.

3. For 2014, our two newly appointed/elected board members received a director fees on a pro rata basis from the date of their service, a grant of 7,500 share of common stock of which 2,500 share were issued in 2014 and options to purchase 7,500 shares of common stock at \$8.15 per share which vest August 31, 2015.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

### Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding beneficial ownership of our voting shares as of December 31, 2014 by: (i) each shareholder known by us to be the beneficial owner of 5% or more of the outstanding voting shares, (ii) each of our directors and executives and (iii) all directors and executive officers as a group. Except as otherwise indicated, we believe that the beneficial owners of the voting shares listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable. Shares of common stock issuable upon exercise of options and warrants that are currently exercisable or that will become exercisable within 60 days of December 31, 2014 have been included in the table.

No shares of preferred stock are outstanding at the date of this report.

**Beneficial Interest Table**

Name and Address of Beneficial Owner (1)	Number of Securities Owned	Percentage of Shares Beneficially Owned (2)
William J. Clough (3)	320,384	1.52 %
Robert J. Evans (4)	15,900	*
Daniel N. Ford (5)	82,798	*
Corey A. Lambrecht (6)	24,700	*
Matthew M McKenzie (7)	86,723	*
Thomas A. Price (8)	82,802	*
Sean P. Rooney (9)	50,860	*
Paul D. White (10)	6,248	*
First Eagle Investment Management, LLC	2,281,242	11.00 %
Marathon Capital Management, LLC	1,258,762	6.07 %
Officers, Directors, Executives as Group	670,415	3.15 %

## Footnotes:

1. Except as otherwise indicated, the address of each beneficial owner is c/o CUI Global, Inc., 20050 SW 112<sup>th</sup> Avenue, Tualatin, Oregon 97062.
2. Calculated on the basis of 20,747,740 shares of common stock issued and outstanding at December 31, 2014 except that shares of common stock underlying options exercisable within 60 days of the date hereof are deemed to be outstanding for purposes of calculating the beneficial ownership of securities of such holder of options.
3. Mr. Clough's common stock includes vested options to purchase 300,335 common shares. Mr. Clough is a Director, interim Chairman and Chief Executive Officer/President of CUI Global, Inc.
4. Mr. Evans common stock includes vested options to purchase 2,500 common shares. Mr. Evans resigned as a Director effective January 8, 2015.
5. Mr. Ford's shares include vested options to purchase 70,794 common shares. Mr. Ford is the Chief Financial Officer of CUI Global, Inc.
6. Mr. Lambrecht's shares include vested options to purchase 24,700 common shares. Mr. Lambrecht is a Director.
7. Mr. McKenzie's shares include vested options to purchase 79,296 common shares. Mr. McKenzie is a Director and Chief Operating Officer of CUI Global, Inc. Mr. McKenzie's securities include an option to purchase 2,796 shares owned by his spouse.
8. Mr. Price's shares include vested options to purchase 24,700 common shares. Mr. Price is a Director.
9. Mr. Rooney's shares include vested options to purchase 45,087 common shares. Mr. Rooney is a Director.
10. Mr. White's shares include vested options to purchase 2,500 common shares. Mr. White is a Director.

We relied upon Section 4(2) of the Securities Act of 1933 as the basis for an exemption from registration for the issuance of the above securities.

### **Item 13. Certain Relationships and Related Transactions and Director Independence**

The Board of Directors is responsible for the review and approval of all related party transactions. Although the Board does not have written policies and procedures with respect to the review of related party transactions, we intend that any such transactions will be reviewed by the Board of Directors or one of its committees, which will consider all relevant facts and circumstances and will take into account, among other factors:

- the material terms of the transaction;
- the nature of the relationship between the Company and the related party;
- the significance of the transaction to the Company;
- whether or not the transaction would be likely to impair (or create an appearance of impairing) the judgement of a Director or Executive Officer to act in the best interest of the Company.

Except as set forth herein, no related party of the Company, including, but not limited to, any director, officer, nominee for director, immediate family member of a director or officer, immediate family member of any nominee for director, security holder that beneficially owns, directly or indirectly, shares carrying more than 5% of the voting rights attached to its outstanding shares, or immediate family member of any such security holder, since the beginning of fiscal year 2014, has any material interest, direct or indirect, in any transaction or in any presently proposed transaction with the Company where the amount involved exceeds \$120,000 which has or will materially affect the Company.

Chief Executive Officer, and Chairman of the Board of Directors, William J. Clough's son Nicholas J. Clough, serves as Director at Orbital Gas Systems Limited, a wholly owned subsidiary of the Company. Mr. Clough received an aggregate salary of \$112,500 for his services with Orbital Gas Systems Limited during fiscal 2014 and received a bonus of \$103,565 in fiscal 2014. He also received stock compensation in 2014 valued at \$50,000, and other benefits valued at \$22,209. Nicholas Clough does not report to the Chief Executive Officer nor does the Chief Executive Officer have input regarding Mr. Clough's salary, bonus, or performance. Mr. Clough's salary and bonus is set by his direct supervisor and relevant market conditions, while his performance is evaluated and monitored by his direct supervisor. In addition, pursuant to Company policy, any bonus and/or salary change in excess of \$50,000 is independently reviewed and approved by the Company's Compensation Committee, comprised of Independent Board Members from the Company's Board of Directors.

#### **IED and Other Affiliates Related Matters**

Effective May 16, 2008 the Company formed a wholly owned subsidiary into which CUI, Inc., an Oregon corporation, merged all of its assets. The funding for this acquisition was provided by a bank note, a seller's note and a convertible seller's note. Matthew McKenzie, COO and Daniel Ford, CFO each were partial owners in CUI, Inc. prior to the acquisition and they each, along with James McKenzie are shareholders in International Electronic Devices, Inc. (IED). The convertible seller's note was satisfied in 2010.

The acquisition of CUI utilized a \$14,000,000 seller's promissory note issued to International Electronic Devices, Inc. (IED), the former CUI shareholders, payable monthly over three years at \$30,000 per month including 1.7% annual simple interest with a balloon payment at the thirty sixth monthly payment, no prepayment penalty, annual success fee of 2.3% payable within three years, right of first refusal to the note payees relating to any private capital raising transactions of CUI Global during the term of the note. Effective September 1, 2010, the Company and the holder of the \$14,000,000 promissory note agreed to reduce the note principal by \$1,588,063 and accrued interest by \$724,729 and to restructure the interest rate and payment terms. The forgiveness of debt and accrued interest of \$2,312,792 was recognized as a contribution of additional paid in capital. With this amendment, the Company agreed to pay \$1,200,000 of the principal balance during the fourth quarter of 2010 and an additional \$487,208 of the principal balance during the first quarter of 2011. The new terms set the interest rate at 6% per annum with monthly interest payments and a May 15, 2018 balloon payment. The note contains a contingent conversion feature, such that in the event of default on the note the holder of the note can, at the holders option, convert the note principal into common stock at \$0.001 per share. As of December 31, 2014, the Company is in compliance with all terms of this promissory note and the conversion feature is not effective.

During 2014, \$265,184 of interest payments were made in relation to the promissory note issued to IED. During 2013 and 2012, \$2,322,863 and \$3,468,221, respectively, in principal and interest payments were made in relation to the promissory notes issued to IED. The 2013 payment utilized \$2,000,000 from the 2013 public offering proceeds that was applied towards the promissory note balance in accordance with a settlement agreement. The 2012 payment utilized \$3,000,000 from the equity sale proceeds for the repayment of principal.

#### **Purchase of Office and Warehouse**

CUI and CUI Global occupy 61,380 square feet of offices and warehouse premises in Tualatin, Oregon under a ten year non-cancelable lease agreement beginning September 1, 2006 with Barakel, LLC (a related party). Barakel, LLC is controlled by James McKenzie, majority owner of CUI, Inc. prior to acquisition and Matt McKenzie, COO and Director of the Company.

On September 27, 2013, our wholly owned subsidiary, CUI Properties, LLC, closed on the purchase of our Tualatin, Oregon corporate office real estate located at 20050 SW 112th Avenue in the Tualatin Franklin Business Park. The purchase price for this acquisition was \$5,050,000. The purchase was funded, in part, by a promissory note payable to Wells Fargo Bank in the amount of \$3,693,750 plus interest at the rate of 2.0% above LIBOR, payable over ten years. It was secured by a deed of trust on the purchased property which was executed by CUI Properties, LLC and guaranteed by CUI Global, Inc. In conjunction with the purchase, the parties to this transaction entered into a Swap Transaction Confirmation agreement effective October 1, 2013 incorporating the terms and definitions of the International Swaps and Derivatives Association, Inc. (ISDA) that effectively maximizes the annual interest rate at 6.27%. Copies of the Swap Transaction Confirmation agreement and other pertinent closing documents are attached to our Form 8-K filed with the Securities and Exchange Commission on October 3, 2013.

### **Matters Relating to the Bank Note**

On September 27, 2013, our wholly owned subsidiary, CUI, Inc., closed on a two year revolving Line of Credit (LOC) with Wells Fargo Bank in the principal amount of four million dollars, (\$4,000,000). The interest rate on any outstanding balance is 1.75% above either the daily one month LIBOR or the LIBOR in effect on the first day of the applicable fixed rate term. The LOC is secured through a security agreement on accounts receivable and equipment, as well as other miscellaneous personal property assets. CUI Global, Inc., the parent company, is a payment guarantor of the LOC. On October 1, 2014, the Company extended the term of the LOC to October 1, 2016.

This revolving LOC effectively satisfies in full and terminates an earlier LOC with Wells Fargo Bank.

### **Item 14. Principal Accountants Fees and Services**

#### *Audit Fees*

The financial statements of the Company, which are furnished herein as of December 31, 2014, have been audited by Perkins & Company, P.C., our Independent Registered Public Accounting Firm. Perkins & Company, P.C. billed or controlled billings to the Company an aggregate of \$317,597 as of December 31, 2014, in fees and expenses for professional services rendered in connection with the audit of the Company's financial statements and internal control over financial reporting for the fiscal year ended December 31, 2014 and the reviews of the financial statements included in each of the Company's Quarterly Reports on Form 10-Q during the fiscal year ended December 31, 2014. Perkins & Company, P.C. billed audit related fees, tax fees, or other fees of \$41,340 during the year ended December 31, 2014.

Effective April 4, 2014, Perkins & Company, P.C. replaced Liggett, Vogt & Webb, P. A. (LVW), as our Independent Registered Public Accounting Firm.

During 2014, LVW billed the Company an aggregate of \$240,414 in fees and expenses for professional services rendered in connection with the audit and restatement of the Company's financial statements for the fiscal year ended December 31, 2013 and for professional services rendered in connection with the transition to Perkins & Company, P.C. In addition, in 2014 LVW billed audit related fees, and other fees of \$33,015 during the year ended December 31, 2014.

Liggett, Vogt & Webb, P. A. billed the Company an aggregate of \$218,913 in fees and expenses for professional services rendered in connection with the audit of the Company's financial statements for the fiscal year ended December 31, 2013 and the reviews of the financial statements included in each of the Company's Quarterly Reports on Form 10-Q during the fiscal year ended December 31, 2013. Liggett, Vogt & Webb, P.A. billed audit related fees, tax fees, or other fees of \$28,796 during the year ended December 31, 2013.



LVW billed the Company an aggregate of \$113,134 in fees and expenses for professional services rendered in connection with the audit of the Company's financial statements for the fiscal year ended December 31, 2012 and the reviews of the financial statements included in each of the Company's Quarterly Reports on Form 10-Q during the fiscal year ended December 31, 2012.

In accordance with the requirements of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder, the Audit Committee has adopted an informal approval policy that it believes will result in an effective and efficient procedure to pre-approve services performed by the independent registered public accounting firm.

### **Section 16(A) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers, directors and persons owning more than 10% of our common stock to file reports of ownership and reports of changes of ownership with the Securities and Exchange Commission. These reporting persons are required to furnish us with copies of all Section 16(a) forms that they file.

We have made all officers and directors aware of their reporting obligations and have appointed an employee to oversee Section 16 compliance for future filings.

### **Shareholder Communications**

Company shareholders who wish to communicate with the Board of Directors or an individual director may write to CUI Global, Inc., 20050 SW 112th Avenue, Tualatin, Oregon 97062, phone (503) 612-2300 or to the attention of an individual director. Your letter should indicate that you are a shareholder and whether you own your shares in street name. Letters received will be retained until the next Board meeting when they will be available to the addressed director. Such communications may receive an initial evaluation to determine, based on the substance and nature of the communication, a suitable process for internal distribution, review and response or other appropriate treatment. There is no assurance that all communications will receive a response.

### **Certain Provisions of the Articles of Incorporation and Colorado Business Corporation Act Relating to Indemnification of Directors and Officers**

The Colorado General Corporation Act, as revised, provides that If so provided in the articles of incorporation, the corporation shall eliminate or limit the personal liability of a director to the corporation or to its shareholders for monetary damages for breach of fiduciary duty as a director; except that any such provision shall not eliminate or limit the liability of a director to the corporation or to its shareholders for monetary damages for any breach of the director's duty of loyalty to the corporation or to its shareholders, acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, unlawful distributions, or any transaction from which the director directly or indirectly derived an improper personal benefit.

Our Articles of Incorporation and By-Laws provide that a person who is performing his or her duties shall not have any liability by reason of being or having been a director of the corporation and that the Company shall indemnify and advance expenses to a director or officer in connection with a proceeding to the fullest extent permitted or required by and in accordance with the indemnification sections of Colorado statutes.

Insofar as indemnification for liabilities may be invoked to disclaim liability for damages arising under the Securities Act of 1933, as amended, or the Securities Act of 1934 (collectively, the "Acts"), as amended, it is the position of the Securities and Exchange Commission that such indemnification is against public policy as expressed in the Acts and are therefore, unenforceable.

## Reports to Shareholders

We intend to voluntarily send annual reports to our shareholders, which will include audited consolidated financial statements. We are a reporting company and file reports with the Securities and Exchange Commission (SEC), including this Form 10-K as well as quarterly reports under Form 10-Q. The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The company files its reports electronically and the SEC maintains an Internet site that contains reports, proxy and information statements and other information filed by the company with the SEC electronically. The address of that site is <http://www.sec.gov>.

The company also maintains an Internet site, which contains information about the company, news releases, governance documents and summary financial data. The address of that site is <http://www.cuiglobal.com>.

## Part IV

### Item 15. Exhibits, Financial Statement Schedules

#### EXHIBITS

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

Exhibit No.	Description
2.1 <sup>1</sup>	Share Purchase Agreement dated March 5, 2013 to acquire 100% of the equity interest in Orbital Gas Systems Ltd., a company organized under the laws of England and Wales.
3.11 <sup>2</sup>	Amended Restated Articles of Incorporation that compile prior amendments into a single document.
10.47 <sup>3</sup>	June 5, 2012 three year Distributor Agreement with Belleau Wood Group. Confidential portion(s) of this document have been redacted pursuant to protection as "confidential" under Exemption 4 of the Freedom of Information Act, 5 U.S.C. § 552(b)(4). A request for confidential treatment has been filed separately with the SEC.
10.62 <sup>3</sup>	August 1, 2012 Addendum "D" to the employment Agreement of William J. Clough.
10.72 <sup>4</sup>	December 7, 2012, line of credit document with the Business Credit division of Wells Fargo Capital Finance, Seventh Amendment to the Credit and Security Agreement.
10.73 <sup>5</sup>	April 30, 2013 Amendment to California Power Research Agreement. Confidential portion(s) of this document have been redacted pursuant to protection as "confidential" under Exemption 4 of the Freedom of

Information Act, 5 U.S.C. § 552(b)(4). A request for confidential treatment has been filed separately with the SEC.

10.74<sup>5</sup> June 20, 2013 Second Amendment to Divestment Agreement regarding Stock Sale and Purchase Agreement between CUI Global, Inc. and Kunio Yamagish *et al*, dated July 1, 2009.

10.76<sup>5</sup> July 19, 2013 Letter agreement between Orbital Gas Systems, Ltd., a wholly owned subsidiary, and a former employee relating to intellectual property for which Orbital is the licensee.

10.77<sup>5</sup> July 19, 2013 Intellectual Property License between Orbital Gas Systems, a wholly owned subsidiary of CUI Global and EnDet, Ltd. Confidential portion(s) of this document have been redacted pursuant to protection as "confidential" under Exemption 4 of the Freedom of Information Act, 5 U.S.C. § 552(b)(4). A request for confidential treatment has been filed separately with the SEC.

- 10.78<sup>6</sup> Documents relating to our April 18, 2013, acquisition of 100% of the equity interest in Orbital Gas Systems Limited, a company organized under the laws of England and Wales (“Orbital”), from Orbital’s sole shareholder.
- 10.79<sup>7</sup> Documents relating to the purchase of our office complex by our wholly owned subsidiary, CUI Properties, LLC.
- 10.80<sup>7</sup> Documents relating to the Line of Credit of our subsidiary, CUI, Inc., with Wells Fargo Bank, please see our Form 8-K filed with the Commission on October 3, 2013.
- 10.81<sup>8</sup> Documents relating to an Addendum to our May 15, 2013 Distributorship Agreement with Digi-Key Corporation. Confidential portion(s) of this document have been redacted pursuant to protection as "confidential" under Exemption 4 of the Freedom of Information Act, 5 U.S.C. § 552(b)(4). A request for confidential treatment has been filed separately with the SEC.
- 10.85<sup>9</sup> August 28, 2014 consulting agreement with Relentless Ventures, LLC.
- 10.86<sup>11</sup> Asset Purchase Agreement dated February 23, 2015 to acquire the assets of Tectrol, Inc. and commercial lease attached as exhibits to our Form 8-K filed with the commission March 3, 2015.
- 14.1<sup>10</sup> Code of Ethics and Business Conduct Statement of General Policy.
- 14.2<sup>10</sup> Whistleblower Policy
- 21.2<sup>12</sup> List of all subsidiaries, state of incorporation and name under which the subsidiary does business.
- 22.8 Proxy Statement and Notice of 2014 Annual Shareholder Meeting filed with the Commission September 16, 2014.
- 23.8<sup>12</sup> Consent of Perkins & Company, P.C.
- 23.9<sup>12</sup> Consent of Liggett, Vogt & Webb, P.A.
- 31.1<sup>13</sup> Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
- 31.2<sup>13</sup> Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
- 32.1<sup>13</sup> Certification of Chief Executive Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350
- 32.2<sup>13</sup> Certification of Chief Financial Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350
- 101<sup>13</sup> XBRL-Related Documents.

Footnotes to Exhibits:

- 1 Incorporated by reference to our Report on Form 8-K filed with the Commission on March 6, 2013.
- 2 Incorporated by reference to our Proxy Statement and Notice of 2013 Annual Shareholder Meeting filed with the Commission September 17, 2013.
- 3 Incorporated by reference to our Report on Form 8-K filed with the Commission on January 18, 2013.
- 4 Incorporated by reference to our Report on Form 8-K filed with the Commission on February 14, 2013.
- 5 Incorporated by reference to our Report on Form 8-K filed with the Commission on July 30, 2013.
- 6 Incorporated by reference to our Report on Form 8-K filed with the Commission on April 24, 2013.
- 7 Incorporated by reference to our Report on Form 8-K filed with the Commission on October 3, 2013.
- 8 Incorporated by reference to our Report on Form 8-K filed with the Commission on December 20, 2013.

- 9 Incorporated by reference to our Report on Form 8-K filed with the Commission on September 2, 2014.
- 10 Incorporated by reference to our Report on Form 10-K filed with the Commission on March 31, 2013.
- 11 Incorporated by reference to our Report on Form 8-K filed with the Commission on March 3, 2015.
- 12 Incorporated by reference to our Report on Form 10-K filed with the Commission on March 16, 2015.
- 13 Filed herewith

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

CUI Global, Inc.  
(registrant)

By: /s/ William J. Clough                      Dated this 15 day of January 2016.  
William J. Clough  
President/Chief Executive Officer  
Principal Executive Officer

By: /s/ Daniel N. Ford                         Dated this 15 day of January 2016.  
Daniel N. Ford  
Chief Financial Officer  
Principal Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ William J. Clough                      Dated this 15 day of January 2016.  
William J. Clough  
Director

By: /s/ Corey A. Lambrecht                      Dated this 15 day of January 2016.  
Corey A. Lambrecht  
Director

By: /s/ Matthew M. McKenzie                      Dated this 15 day of January 2016.  
Matthew M. McKenzie  
Director

By: /s/ Thomas A. Price                         Dated this 15 day of January 2016.

Thomas A. Price  
Director

By: /s/ Sean P. Rooney  
Sean P. Rooney  
Director

Dated this 15 day of January 2016.

By: /s/ Paul D. White  
Paul D. White  
Director

Dated this 15 day of January 2016.

**CUI Global, Inc.**

**Index to Consolidated Financial Statements**

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## Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

CUI Global Inc.

Tualatin, Oregon

We have audited the accompanying consolidated balance sheet of CUI Global, Inc. and Subsidiaries as of December 31, 2014 and the related consolidated statements of operations, comprehensive income and (loss), changes in stockholders' equity, and cash flows for the year ended December 31, 2014. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CUI Global, Inc. and Subsidiaries at December 31, 2014, and the consolidated results of their operations and their cash flows for the year ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CUI Global Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2015 expressed an adverse opinion due to a material weakness regarding management's failure to design and maintain controls at its subsidiary, Orbital Gas Systems Limited, to ensure all contracts outside of standard terms and conditions were being reviewed by qualified Company personnel for proper revenue recognition treatment under generally accepted accounting principles in the United States of America as identified and described in management's assessment under Item 9A, Management's Annual Report on Internal Control Over Financial Reporting.

/s/ Perkins & Company, P.C.

Portland, Oregon

March 16, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of CUI Global, Inc.

We have audited the accompanying balance sheets of CUI Global, Inc. and Subsidiaries (“the Company”) as of December 31, 2013, and the related statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2013. The Company’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CUI Global, Inc. and Subsidiaries as of December 31, 2013, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ Liggett, Vogt & Webb, P.A.

LIGGETT, VOGT & WEBB, P.A.

*Certified Public Accountants*

Boynton Beach, Florida

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March 31, 2014, except for Notes 2,4, 6, and 15 as to which the date is May 13, 2014, and Note 2 and 15 which the date is March 16, 2015

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**CUI Global, Inc.****Consolidated Balance Sheets****As of December 31, 2014 and 2013**

	December 31, 2014	December 31, 2013
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 11,704,361	\$ 16,575,508
Short term investments held to maturity	11,159,765	10,868,961
Trade accounts receivable, net of allowance of \$253,871 and \$285,348, respectively	11,868,582	9,055,561
Inventories, net of allowance of \$394,165 and \$549,981, respectively	6,840,845	7,027,644
Costs in excess of billings	-	552,012
Prepaid expenses and other	1,552,411	603,960
Total current assets	43,125,964	44,683,646
Property and equipment, net	8,229,989	8,206,563
Other Assets:		
Investment - equity method	332,429	283,011
Other intangible assets, net	19,347,954	23,512,394
Deposits and other	130,579	25,364
Goodwill, net	21,886,958	22,448,613
Total other assets	41,697,920	46,269,382
Total assets	\$ 93,053,873	\$ 99,159,591
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts payable	\$ 3,833,749	\$ 4,146,262
Mortgage note payable, current portion	80,746	76,814
Leases payable, current	32,723	83,904
Accrued expenses	3,161,258	2,943,979
Billings in excess of costs	3,623,906	6,787,231
Unearned revenue	1,622,579	1,257,346
Total current liabilities	12,354,961	15,295,536
Long term leases payable	74,071	58,363
Derivative liability	599,698	427,818
Long term mortgage note payable, net of current portion of \$80,746 and \$76,814, respectively	3,523,496	3,604,242
Long term notes payable, related party	5,303,683	5,303,683

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Deferred revenue	131,565	-
Deferred tax liabilities, net *	5,096,063	5,911,892
Total long term liabilities *	14,728,576	15,305,998
Total liabilities *	27,083,537	30,601,534
Commitments and contingencies		
Stockholders' Equity:		
Common stock, par value \$0.001; 325,000,000 shares authorized; 20,747,740 shares issued and outstanding at December 31, 2014 and 20,566,663 shares issued and outstanding at December 31, 2013	20,748	20,567
Additional paid-in capital	148,397,980	146,614,995
Accumulated deficit *	(82,716,744 )	(79,915,466 )
Accumulated other comprehensive income (loss)	268,352	1,837,961
Total stockholders' equity *	65,970,336	68,558,057
Total liabilities and stockholders' equity *	\$93,053,873	\$99,159,591

\* Prior-period amounts have been revised to reflect an immaterial adjustment of deferred tax temporary differences and stockholders' equity (see Summary of Significant Accounting Policies, Adjustment of Prior Period Balances and Note 15. Income Taxes).

See accompanying notes to consolidated financial statements

**CUI Global, Inc.****Consolidated Statements of Operations****For the Years Ended December 31, 2014, 2013 and 2012**

	2014	2013	2012
Revenues:			
Product revenues	\$76,002,734	\$60,610,353	\$41,031,050
Revenue from freight	42,483	41,312	53,539
Total revenue	76,045,217	60,651,665	41,084,589
Cost of revenues	47,494,283	37,147,182	25,958,730
Gross profit	28,550,934	23,504,483	15,125,859
Operating expenses:			
Selling, general and administrative	26,061,667	19,498,526	15,491,080
Depreciation and amortization	4,197,156	3,010,787	479,456
Research and development	1,168,858	890,461	791,332
Bad debt	(39,187 )	211,546	65,763
Impairment of intangible, technology rights	32,355	-	-
Impairment of intangible, trademark and trade name V-Infinity	-	-	278,428
Loss on disposals of fixed assets	26,488	9,648	-
Total operating expenses	31,447,337	23,620,968	17,106,059
Loss from operations	(2,896,403 )	(116,485 )	(1,980,200 )
Other income (expense):			
Other income	281,305	235,913	95,069
Other expense	(206,651 )	(47,381 )	(18,567 )
Unrealized gain (loss) on derivative	(171,880 )	(427,818 )	-
Impairment of note receivable	-	(502,194 )	-
Earnings from equity investment	49,418	24,766	59,623
Amortization of investment premiums and discounts	(75,118 )	(22,732 )	-
Amortization of debt offering costs and debt discount	-	(42,777 )	(73,333 )
Interest expense	(508,123 )	(442,849 )	(575,199 )
Total other income (expense), net	(631,049 )	(1,225,072 )	(512,407 )
(Loss) before taxes	(3,527,452 )	(1,341,557 )	(2,492,607 )
Provision (benefit) for taxes	(726,174 )	(398,444 )	33,714
Consolidated net (loss)	\$(2,801,278 )	\$(943,113 )	\$(2,526,321 )
Basic and diluted (loss) per common share	\$(0.14 )	\$(0.05 )	\$(0.25 )

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Basic and diluted weighted average common shares outstanding	20,658,634	17,751,042	10,175,989
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See accompanying notes to consolidated financial statements

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**CUI Global, Inc.**

**Consolidated Statements of Comprehensive Income and (Loss)**

**For the Years Ended December 31, 2014, 2013 and 2012**

	2014	2013	2012
Consolidated net (loss)	\$(2,801,278)	\$(943,113 )	\$(2,526,321)
Other comprehensive income (loss)			
Foreign currency translation adjustment	(1,569,609)	1,862,297	(42,305 )
Consolidated comprehensive net income (loss)	\$(4,370,887)	\$919,184	\$(2,568,626)

See accompanying notes to consolidated financial statements

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## CUI Global, Inc.

## Consolidated Statements of Changes in Stockholders' Equity

## For the Years Ended December 31, 2014, 2013 and 2012

	Series A Preferred Stock and Preferred Stock Issuable		Common Stock and Common Stock Issuable	
	Shares	Amount	Shares	Amount
Balance, December 31, 2011	50,543	\$ 51	7,314,513	\$7,315
Options granted for services and compensation	-	-	-	-
Common stock issued for options exercised in exchange for cash and accrued compensation	-	-	10,071	10
Common stock issued for the conversion of Preferred Stock and accrued preferred stock dividends	(50,543)	(51)	9,661	9
Issuance of common stock	-	-	3,359,887	3,360
Common stock issued for services and compensation	-	-	188,096	188
Common stock issued for royalties pursuant to product agreements	-	-	1,052	1
Net loss for the year ended December 31, 2012	-	-	-	-
Other comprehensive loss	-	-	-	-
Balance, December 31, 2012	-	-	10,883,280	10,883
Options granted for services and compensation	-	-	-	-
Issuance of common stock	-	-	9,660,000	9,660
Common stock issued for services and compensation	-	-	18,805	19
Common stock issued for royalties pursuant to product agreements	-	-	4,578	5
Net loss for the year ended December 31, 2013	-	-	-	-
Other comprehensive income	-	-	-	-
Balance, December 31, 2013	-	-	20,566,663	20,567
Options granted for services and compensation	-	-	-	-
Common stock issued for exercises of options	-	-	31,850	32
Common stock issued for services and compensation	-	-	140,870	141
Common stock issued for accrued expenses and accrued royalties	-	-	6,482	6
Common stock issued for royalties pursuant to product agreements	-	-	1,875	2
Net loss for the year ended December 31, 2014	-	-	-	-
Other comprehensive loss	-	-	-	-
Balance, December 31, 2014	-	\$ -	20,747,740	\$20,748

Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
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Balance, December 31, 2011	\$86,217,169	\$(76,446,032 )*	\$17,969	\$9,796,472	*
Options granted for services and compensation	232,785	-	-	232,785	
Common stock issued for options exercised in exchange for cash and accrued compensation	3,011	-	-	3,021	
Common stock issued for the conversion of Preferred Stock and accrued preferred stock dividends	5,095	-	-	5,053	
Issuance of common stock	13,525,903	-	-	13,529,263	
Common stock issued for services and compensation	957,108	-	-	957,296	
Common stock issued for royalties pursuant to product agreements	6,637	-	-	6,638	
Net loss for the year ended December 31, 2012	-	(2,526,321 )	-	(2,526,321 )	
Other comprehensive loss	-	-	(42,305 )	(42,305 )	
Balance, December 31, 2012	100,947,708	(78,972,353 )	(24,336 )	21,961,902	
Options granted for services and compensation	410,131	-	-	410,131	
Issuance of common stock	45,125,620	-	-	45,135,280	
Common stock issued for services and compensation	106,728	-	-	106,747	
Common stock issued for royalties pursuant to product agreements	24,808	-	-	24,813	
Net loss for the year ended December 31, 2013	-	(943,113 )	-	(943,113 )	
Other comprehensive income	-	-	1,862,297	1,862,297	
Balance, December 31, 2013	146,614,995	(79,915,466 )	1,837,961	68,558,057	
Options granted for services and compensation	712,035	-	-	712,035	
Common stock issued for exercises of options	(32 )	-	-	-	
Common stock issued for services and compensation	1,018,710	-	-	1,018,851	
Common stock issued for accrued expenses and accrued royalties	39,073	-	-	39,079	
Common stock issued for royalties pursuant to product agreements	13,199	-	-	13,201	
Net loss for the year ended December 31, 2014	-	(2,801,278 )	-	(2,801,278 )	
Other comprehensive loss	-	-	(1,569,609 )	(1,569,609 )	
Balance, December 31, 2014	\$148,397,980	\$(82,716,744 )	\$268,352	\$65,970,336	

\* Prior-period amounts have been revised to reflect an immaterial adjustment of deferred tax temporary differences and stockholders' equity (see Summary of Significant Accounting Policies, Adjustment of Prior Period Balances and Note 15. Income Taxes).

See accompanying notes to consolidated financial statements

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**CUI Global, Inc.****Consolidated Statements of Cash Flows****For the Years Ended December 31, 2014, 2013 and 2012**

	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net (loss)	\$(2,801,278 )	\$(943,113 )	\$(2,526,321 )
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:			
Stock and options issued for compensation, royalties and services	1,686,585	541,691	1,190,081
Unrealized loss on derivative	171,880	427,818	-
Non-cash interest expense, including amortization of debt offering costs	-	42,777	73,333
Non-cash earnings on equity method investment	(49,418 )	(24,766 )	(59,623 )
Allowance for bad debt expense and returns allowances	(91,050 )	301,546	65,763
Amortization of investment premiums and discounts	75,118	22,732	-
Amortization of intangibles	3,438,522	2,522,203	150,432
Deferred income taxes	(674,177 )	(815,562 )	-
Impairment of intangible, technology rights	32,355	-	-
Impairment of intangible, trademark and trade name V-Infinity	-	-	278,428
Inventory reserve	(147,473 )	(27,979 )	10,000
Impairment of note receivable	-	502,194	-
Loss on disposal of assets	26,488	9,648	-
Depreciation	1,003,291	756,871	579,861
(Increase) decrease in assets:			
Trade accounts receivable	(3,277,448 )	1,628,135	(1,337,048 )
Inventory	209,657	(1,733,273 )	(1,290,794 )
Costs in excess of billings	551,660	(176,640 )	-
Prepaid expenses and other current assets	(970,711 )	(228,672 )	285,690
Deposits and other assets	18,760	(14,004 )	80,856
Increase (decrease) in liabilities:			
Accounts payable	(257,096 )	(7,027 )	382,852
Accrued expenses	353,539	(2,543,969 )	12,045
Unearned revenue	504,808	837,334	300,786
Billings in excess of costs	(2,938,400 )	598,279	-
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(3,134,388 )</b>	<b>1,676,223</b>	<b>(1,803,659 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Cash paid upon acquisition, net of cash received	-	(17,709,507)	-
Investments in other intangible assets, net	(3,667 )	(414,700 )	(80,343 )
Purchase of short term investments held to maturity	(12,766,667)	(15,390,437)	-
Maturities of short term investments held to maturity	12,400,744	4,498,744	-

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Proceeds from notes receivable	-	33,451	46,808
Deposits for property and equipment	(61,988 )	-	-
Purchase of property and equipment	(1,095,820 )	(2,523,418 )	(685,269 )
NET CASH USED IN INVESTING ACTIVITIES	(1,527,398 )	(31,505,867)	(718,804 )
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from (payments to) demand notes payable	-	(459,448 )	(1,069,452 )
Proceeds from (payments to) leases payable	(107,956 )	(68,050 )	-
Proceeds from (payments to) notes and loans payable	(76,814 )	(12,694 )	(4,000,000 )
Payments on convertible notes payable, related party	-	-	(35,000 )
Payments on notes payable, related party	-	(2,000,000 )	(3,000,000 )
Proceeds from sales of common stock and exercise of options, net of offering costs	-	45,135,280	13,532,285
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(184,770 )	42,595,088	5,427,833
EFFECT OF EXCHANGE RATE CHANGE ON CASH			
Cash and cash equivalents at beginning of year	16,575,508	3,039,840	176,775
Cash and cash equivalents at end of year	11,704,361	16,575,508	3,039,840
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$(4,871,147 )	\$13,535,668	\$2,863,065

(continued)

	2014	2013	2012
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Income taxes paid	\$373,798	\$426,054	\$72,630
Interest paid	\$508,712	\$424,577	\$597,814
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Deposit for property and equipment purchases in accounts payable	\$61,988	\$-	\$-
Mortgage note payable assumed for the acquisition of real estate	\$-	\$3,693,750	\$-
Common stock issued for royalties payable pursuant to product agreements, related party	\$13,201	\$24,813	\$6,638
Capital leases	\$74,537	\$76,035	\$-
Conversion of accrued liabilities to common stock	\$39,079	\$-	\$5,054
Conversion of preferred stock to common stock	\$-	\$-	\$51
Common stock issued for consulting services and compensation in common stock	\$1,018,851	\$106,747	\$957,295

See accompanying notes to consolidated financial statements

**CUI Global, Inc.**

**Notes to Consolidated Financial Statements**

**1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

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.

CUI, Inc. is based in Tualatin, Oregon and CUI Japan is based in Tokyo, Japan. Both CUI, Inc. (CUI) and CUI Japan are providers of electro-mechanical components including power supplies, transformers, converters, connectors and industrial controls for Original Equipment Manufacturers (OEMs). Since its inception in 1989, CUI has been delivering quality products, extensive application solutions and superior personal service. CUI's solid customer commitment and honest corporate message are a hallmark in the industry.

Through CUI's capabilities and extensive contacts throughout Asia, this acquisition allows CUI Global to continue to identify, acquire and commercialize new proprietary technologies. CUI Global will use CUI's market partners and global distribution capabilities to bring other products to market, including the Novum and Solus power products, 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 and CUI Japan define their product offering into two categories: **components** including connectors, speakers, buzzers, test and measurement devices, and control solutions including encoders and sensors; and **power solutions** which include Novum and Solus. These offerings provide a technology architecture that addresses power and related accessories to industries as broadly ranging as consumer electronics, medical and defense.

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



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

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include estimates used to review the Company's goodwill, impairments and estimations of long-lived assets, revenue recognition on percentage of completion type contracts, allowances for uncollectible accounts, inventory valuation, warranty reserves, valuations of non-cash capital stock issuances and the valuation allowance on deferred tax assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

### Principles of Consolidation

The consolidated financial statements for 2014 and 2013 include the accounts of CUI Global, Inc. and its wholly owned subsidiaries CUI, Inc., CUI Japan, CUI Properties, LLC and Orbital Gas Systems, Ltd. (included since April 1, 2013), hereafter referred to as the “Company”. The consolidated financial statements for 2012 include the accounts of CUI Global, Inc. and its wholly owned subsidiaries CUI, Inc. and CUI Japan. Significant intercompany accounts and transactions have been eliminated in consolidation.

### Adjustment of Prior Period Balances

The Company revised its consolidated balance sheet as of January 1, 2012 by recording a deferred tax liability of \$2.8 million associated with a prior acquisition and a resulting offset increasing the Company’s accumulated deficit since the effect of the correction relates to years prior to 2012. The consolidated balance sheets for December 31, 2013 and 2012 presented in the accompanying consolidated financial statements reflect this change. The result of this correction did not affect the Company’s consolidated statements of operations, comprehensive income and loss or cash flows for the years ended December 31, 2013 and 2012. Management made the revisions to the accompanying consolidated financial statements because recording the correction in 2014 would have been material to the consolidated statement of operations for the year ended December 31, 2014.

In addition, management identified an error in its tax filings since 2008 related to overstated tax deductions for amortization on acquired intangibles and goodwill for which no tax basis existed. Management determined that the deductions overstated net operating loss carryforwards and the associated valuation allowance, which had been previously disclosed. The Company determined that no impact other than disclosure would result from the correction of the overstated net operating loss carryforwards which have been subject to a full valuation allowance. The reversal of the overstated deferred tax assets representing net operating loss carryforwards, would be completely offset by a reduction in existing valuation allowances for the same previous years. The Company has revised its income tax footnote disclosure as of January 1, 2012, to reflect these revisions to its deferred tax assets, valuation allowance and deferred tax liabilities with the corresponding impact flowing through in subsequent disclosures.

### Fair Value of Financial Instruments

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

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

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

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

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

#### Cash and Cash Equivalents

Cash includes deposits at financial institutions with maturities of three months or less. The Company at times has cash in banks in excess of FDIC insurance limits and places its temporary cash investments with high credit quality financial institutions. The Company considers all highly liquid marketable securities with original maturities of 90 days or less at the date of acquisition to be cash equivalents. Cash equivalents include money market funds, certificates of deposit and commercial paper. At December 31, 2014 and 2013, the Company had \$2,090,952 and \$2,964,871, respectively, of cash and cash equivalents balances at domestic financial institutions which were covered under the FDIC insured deposits programs and \$132,022 and \$137,156, respectively, at foreign financial institutions covered under the United Kingdom Financial Services Compensation (FSC). At December 31, 2014 and 2013, the Company held \$64,411 and \$108,747, respectively, in Japanese foreign bank accounts and \$2,531,689 and \$6,984,417, respectively, in European foreign bank accounts.

#### Investments

The Company considers all investments with original maturities over 90 days that mature in less than one year from the balance sheet date to be short-term investments. Short-term investments primarily include money market funds, certificates of deposit, corporate notes, and commercial paper. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using a method that approximates the effective interest method. Under this method, dividend and interest income are recognized when earned. At December 31, 2014 and 2013, CUI Global had \$11,159,765 and \$10,868,961, respectively, of short-term investments classified as held-to-maturity, which are reported at amortized cost, which approximates market. At December 31, 2014 and 2013, the Company had \$6,845,000 and \$9,750,000, respectively of investments in certificates of deposit which were covered under FDIC insured limits and covered under \$500,000 of SIPC insured programs for investments.

#### Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable consist of the receivables associated with revenue derived from product sales. An allowance for uncollectible accounts is recorded to allow for any amounts that may not be recoverable, based on an analysis of prior collection experience, customer credit worthiness and current economic trends. Based on management’s review of

accounts receivable, an allowance for doubtful accounts of \$253,871 and \$285,348 at December 31, 2014 and 2013, respectively, is considered adequate. The reserve in both periods takes into account aged receivables that management believes should be specifically reserved for as well as historic experience with bad debts to determine the total reserve appropriate for each period. Receivables are determined to be past due based on the payment terms of original invoices. The Company grants credit to its customers, with standard terms of Net 30 days. The Company routinely assesses the financial strength of its customers and, therefore, believes that its accounts receivable credit risk exposure is limited. Additionally, the Company maintains a foreign credit receivables insurance policy that covers many of the CUI, Inc. foreign customer receivable balances in effort to further reduce credit risk exposure.

### Inventory

Inventories consist of finished and un-finished products and are stated at the lower of cost or market; using the first-in, first-out (FIFO) method as a cost flow convention. At December 31, 2014, and 2013, inventory is valued, net of allowances, at \$6,840,845 and \$7,027,644, respectively. The allowances for inventory were \$394,165 and \$549,981 at December 31, 2014 and 2013, respectively. The Company provides allowances for inventories estimated to be excess, obsolete or unmarketable. The Company's estimation process for assessing the net realizable value is based upon its known backlog, projected future demand, historical usage and expected market conditions. At December 31, 2014, before allowance, the Company had finished goods of \$5,610,039 and raw materials of \$1,624,971. At December 31, 2013, before allowance, the Company had finished goods of \$5,776,916, raw materials of \$1,290,851, and work in process of \$509,858.

### Land, Buildings, Improvements, Furniture, Vehicles, Equipment, Software and Leasehold Improvements

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

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

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

Leasehold improvements are recorded at cost and are depreciated over the lesser of the lease term, estimated useful life, or 10 years.

The cost of buildings, improvements, furniture, vehicles, equipment, and software is depreciated over the estimated useful lives of the related assets.

Depreciation is computed using the straight-line method for financial reporting purposes. The estimated useful lives for land, buildings, improvements, furniture, vehicles, equipment, and software are as follows:

	Estimated Useful Life
Buildings and improvements	5 to 39 years
Furniture and equipment	3 to 10 years

Vehicles	3 to 5 years
Software	3 to 5 years

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

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Long-Lived Assets

Long-lived assets including indefinite lived identifiable assets are periodically reviewed for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recoverable. In performing the review for recoverability, the future cash flows expected to result from the use of the asset and its eventual disposition are estimated. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the long-lived asset, an impairment loss is recognized as the excess of the carrying amount over the fair value. Otherwise, an impairment loss is not recognized. Management estimates the fair value and the estimated future cash flows expected. Any changes in these estimates could impact whether there was impairment and the amount of the impairment.

Identifiable Intangible Assets

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

1. Inputs used to measure fair value are unadjusted quote prices available in active markets for the identical assets or liabilities if available.  
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
3. of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.
4. Expert appraisal and fair value measurement as completed by third party experts.

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

	Estimated Useful Life
<u>Finite-lived intangible assets</u>	
Order backlog	2
Trade name - Orbital	10
Trade name - V-Infinity	5
Customer list – Orbital	10
Technology rights	20*
Technology-Based Asset-Know How	12



Technology -Based Asset - Software	10
Patents	**
Other intangible assets	***

Indefinite-lived intangible assets

Trade name – CUI	****
Customer list – CUI	****
Patents pending technology	****

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

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

\*\*\* Other intangible assets are amortized over an appropriate useful life, as determined by management in relation to the other intangible asset characteristics.

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

### Indefinite Lived Intangibles and Goodwill Assets

The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805, "Business Combinations," where the total purchase price is allocated to the tangible and identified intangible assets acquired and liabilities assumed based on their estimated fair values. The purchase price is allocated using the information currently available, and may be adjusted, up to one year from acquisition date, after obtaining more information regarding, among other things, asset valuations, liabilities assumed and revisions to preliminary estimates. The purchase price in excess of the fair value of the tangible and identified intangible assets acquired less liabilities assumed is recognized as goodwill.

The Company tests for indefinite lived intangibles and goodwill impairment in the second quarter of each year and whenever events or circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. In accordance with its policies, the Company performed a qualitative assessment of indefinite lived intangibles and goodwill at May 31, 2014, and determined there was no impairment of indefinite lived intangibles and goodwill.

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 Global 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, 2013. The adoption of ASU 2011-08 did not have an impact on our consolidated financial statements. 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, management completes 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 follows the steps in ASC 350-20-35-3C to evaluate the fair values of the intangibles and goodwill and considers all known events and circumstances that might trigger an impairment of goodwill. In 2012, 2013 and 2014, the analysis, determined that there was no impairment necessary to goodwill. Through these reviews, 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.

Investment – Equity Method

Through the acquisition of CUI, Inc. the Company obtained 352,589 common shares (representing an 11.54% interest at December 31, 2012; and 11.54% interest thru June 30, 2013, 8.62% thru December 31, 2013, 8.94% thru March 31, 2014, and 8.5% thereafter) in Test Products International, Inc., hereafter referred to as TPI. TPI is a provider of handheld test and measurement equipment. Under the equity method, investments are carried at cost, plus or minus the Company's proportionate share, based on present ownership interests, of: (a) the investee's profit or loss after the date of acquisition; (b) changes in the Company's equity that have not been recognized in the investee's profit or loss; and (c) certain other adjustments. CUI Global enjoys a close association with this affiliate through common Board of Director membership and participation that allows for a significant amount of influence over affiliate business decisions. Accordingly, for financial statement purposes, the Company accounts for its investment in this affiliated entity under the equity method. A summary of the financial statements of the affiliate for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Current assets	\$6,300,033	\$6,224,234	\$6,509,736
Non-current assets	430,196	255,709	540,518
Total Assets	\$6,730,229	\$6,479,943	\$7,050,254
Current liabilities	\$1,973,928	\$2,275,489	\$3,272,360
Non-current liabilities	770,531	687,019	1,203,826
Stockholders' equity	3,985,770	3,517,435	2,574,068
Total Liabilities and Stockholders' Equity	\$6,730,229	\$6,479,943	\$7,050,254
Revenues	\$14,468,307	\$13,779,288	\$12,538,711
Operating income	872,464	1,049,083	757,484
Net profit	766,996	299,422	516,482
Other comprehensive profit (loss):			
Foreign currency translation adjustment	-	33,668	-
Comprehensive net profit	\$766,996	\$333,090	\$516,482
Company share of Net Profit	\$49,418	\$24,766	\$59,623
Equity investment in affiliate	\$332,429	\$283,011	\$258,245

Patent Costs

The Company estimates the patents it has filed have a future beneficial value; therefore it capitalizes the costs associated with filing for its patents. At the time the patent is approved, the patent costs associated with the patent are amortized over the useful life of the patent. If the patent is not approved, at that time the costs will be expensed.

### Derivative instruments

The Company uses various derivative instruments including forward currency contracts, and interest rate swaps to manage certain exposures. These instruments are entered into under the Company's corporate risk management policy to minimize exposure and are not for speculative trading purposes. The Company recognizes all derivatives as either assets or liabilities in the consolidated balance sheet and measures those instruments at fair value. Changes in the fair value of derivatives are recognized in earnings. The Company has limited involvement with derivative instruments and does not trade them. From time to time, the Company may enter into foreign currency exchange contracts to minimize the risk associated with foreign currency exchange rate exposure from expected future cash flows. The Company has entered into one interest rate swap which has a maturity date of ten years from the date of inception, and is used to minimize the interest rate risk on the variable rate mortgage. During the years ended December 31, 2014 and 2013, the Company had unrealized losses of approximately \$172 thousand and \$428 thousand, respectively, related to the derivative liabilities.

### Derivative Liabilities

The Company evaluates 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.

### Stock-Based Compensation

The Company records its stock-based compensation expense under our stock option plans and also issues stock for services. The Company accounts for stock based compensation using FASB Accounting Standards Codification No. 718 ("FASB ASC 718"), "Compensation – Stock Compensation". FASB Codification No. 718 requires the fair value of all stock-based employee compensation awarded to employees to be recorded as an expense over the related vesting period. Employee stock compensation is recorded at fair value using the Black Scholes Pricing Model. The underlying assumptions used in the Black Scholes Pricing Model by the Company are taken from publicly available sources including: (1) volatility which is calculated using historic stock price information from online finance websites such as Google Finance and Yahoo Finance; (2) the stock price on the date of grant is obtained from online finance websites such as those previously noted; (3) the appropriate discount rates are obtained from the United States Federal Reserve economic research; and (4) data website and other inputs are determined based on previous experience and related estimates. With regards to expected volatility, the Company utilizes an appropriate period for historical share prices for CUI Global that best reflect the expected volatility for determining the fair value of our stock options. Due to the significant changes to the Company, including the 2013 equity raise, acquisition of Orbital, increased institutional ownership and other such factors that have impacted volatility, the volatility period utilized for 2014 option grant valuations used a historical period to January 1, 2013. The Company may change its expected volatility factor to include a longer historical periods as the Company has remained consistent with regards to the aforementioned factors.

See Note 12 for additional disclosure and discussion of the employee stock plan and activity.

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 performance completion 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 based off an estimate of the fair value of the stock award as valued 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.

Common stock issued to other than employees or directors subject to performance (performance based awards) require interpretation to include ASC 505-50-30-13 as to when the counterparty's performance is complete based on delivery, or other relevant performance criteria in accordance with the relevant agreement. When performance is complete, the common stock should be issued and the expense recorded on the basis of their value as required by FASB ASC 505 on the date the performance requirement is achieved.

### Defined Contribution Plans

The Company has a 401(k) retirement savings plan that allows employees to contribute to the plan after they have completed two months of service and are 21 years of age. The Company matches the employee's contribution up to 6% of total compensation. CUI, Inc. made total employer contributions, net of forfeitures, of \$271,813, \$245,594, and \$215,118 for 2014, 2013 and 2012, respectively.

Orbital Gas Systems, Ltd., operates a defined contribution retirement benefit plan for employees who have been employed with the company at least 12 months and who chose to enroll in the plan. Orbital Gas Systems, Ltd. contributes to its plan the equivalent of 5% of the employee's salary and the employee has the option to contribute pre-tax earnings. Orbital made total employer contributions of \$255,773 during 2014 and \$106,121 during the period from April 1, 2013 thru December 31, 2013.

### Revenue Recognition

Product revenue is recognized in the period when persuasive evidence of an arrangement with a customer exists, the products are shipped and title has transferred to the customer, the price is fixed or determinable, and collection is reasonably assured. The Company sells to distributors pursuant to distribution agreements that have certain terms and conditions such as the right of return and price protection which inhibit revenue recognition unless they can be reasonably estimated as we cannot assert the price is fixed and determinable and estimate returns. For one distributor that comprises 30% of revenue, we have such history and ability to estimate and therefore recognize revenue upon sale to the distributor and record a corresponding reserve for the estimated returns. For a different distributor arrangement that represents 4% of revenue, we do not have sufficient history to reasonably estimate price protection reserve and the right of return and accordingly defer revenue and the related costs until such time as the distributor resells the product.

Revenues and related costs on production type contracts are recognized using the "percentage of completion method" of accounting in accordance with ASC 605-35, *Accounting for Performance of Construction-Type and Certain Production Type Contracts* ("ASC 605-35"). Under this method, contract revenues and related expenses are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Costs include direct material, direct labor, subcontract labor and any allocable indirect costs. All un-allocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss as it is determined. Contract costs plus recognized profits are accumulated as deferred assets, and billings and/or cash

received are recorded to a deferred revenue liability account. The net of these two accounts for any individual project is presented as "Costs in excess of billings," an asset account, or "Billings in excess of costs," a liability account. At December 31, 2014, the Costs in excess of billings balance was \$0 and the Billings in excess of costs balance was approximately \$3.6 million.

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

Revenues from warranty and maintenance activities are recognized ratably over the term of the warranty and maintenance period and the unrecognized portion is recorded as deferred revenue.

#### 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, and were approximately \$42 thousand, \$41 thousand, and \$54 thousand, respectively, for the years ended December 31, 2014, 2013 and 2012, respectively. The Company expenses inbound shipping and handling costs as cost of revenues.

#### Warranty Reserves

A warranty reserve liability is recorded based on estimates of future costs on sales recognized. At December 31, 2014, there was no warranty reserve recorded based on these estimates. At December 31, 2013, the balance of approximately \$0.2 million for warranty reserve liability is included in accrued expenses on the balance sheet.

#### Advertising

The costs incurred for producing and communicating advertising are charged to operations as incurred. Advertising expense for the years ended December 31, 2014, 2013 and 2012 were \$1.3 million, \$1.1 million and \$0.9 million, respectively. In addition to these advertising costs, the Company also incurs advertising related costs for advertising completed in partnership with our distributors. These costs are offset against revenues. During 2014, 2013 and 2012, the advertising costs offset against revenues were \$0.3 million, \$0.3 million and \$0, respectively.

#### Income Taxes

Income taxes are accounted for under the asset and liability method of FASB Accounting Standards Codification No. 740 ("FASB ASC 740"), "Income Taxes". Under FASB ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the enactment date.

Valuation allowances have been established against domestic based deferred tax assets due to uncertainties in the Company's ability to generate sufficient taxable income in future periods to make realization of such assets more likely than not. An income tax benefit has not been recognized for operating losses generated during 2014, 2013 and 2012 based on uncertainties concerning the ability to generate taxable income in future periods. In future periods, tax



benefits and related domestic deferred tax assets will be recognized when management considers realization of such amounts to be more likely than not. The Company recognizes interest and penalties, if any, related to its tax positions in income tax expense. There was \$0.3 million and \$0 of income tax receivable at December 31, 2014 and 2013 primarily related to foreign prepayments, refunds and carryback.

The Company files consolidated income tax returns for federal and many state jurisdictions in addition to separate subsidiary income tax returns in Japan and the United Kingdom. As of December 31, 2014, the Company is not under examination by any income tax jurisdiction. The Company is no longer subject to examination for years prior to 2011.

Net Loss per 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 for the period by the weighted average number of common shares outstanding during the period. The weighted average shares outstanding included 1,302 and 11,804 of shares that are outstanding, but unissued as of December 31, 2014 and 2013, respectively, for strategic consulting services regarding the testing and demonstration of the GasPT2 technology rendered since August 6, 2013 and to be rendered thru August 5, 2014 in accordance with the terms of the contract agreement as well as shares to be issued in accordance with a royalty agreement pertaining to sales of the GasPT2 devices.

Diluted net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Common equivalent shares outstanding as of December 31, 2014, 2013 and 2012, which consist of options and convertible liabilities, have been excluded from the diluted net loss per common share calculations because they are anti-dilutive. Accordingly, diluted net loss per share is the same as basic net loss per share for 2014, 2013 and 2012. The following table summarizes the potential common stock shares excluding amounts applicable to contingent conversion option at December 31, 2014, 2013 and 2012, which may dilute future earnings per share.

	2014	2013	2012
Options, outstanding	998,432	1,030,807	682,141
	998,432	1,030,807	682,141

Any common shares issued as a result of stock options or warrants would come from newly issued common shares, from our remaining authorized shares.

Foreign Currency Translation

The financial statements of the Company's foreign offices have been translated into U.S. dollars in accordance with FASB ASC 830, “Foreign Currency Matters” (FASB ASC 830). All balance sheet accounts have been translated using the exchange rate in effect at the balance sheet date. Income statement amounts have been translated using an appropriately weighted average exchange rate for the year. The translation gains and losses resulting from the changes in exchange rates during 2014, 2013 and 2012 have been reported in accumulated other comprehensive income (loss), 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 year ended December 31, 2012, the Company operated in one operating segment based on the activities for the company in accordance with ASC 280-10. Operating segments are defined as components of an enterprise for which

separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Company did 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 for the years ended December 31, 2012.

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

The following information represents segment activity for the year ended December 31, 2014:

	Power and Electro- Mechanical	Gas	Other	Totals
Revenues from external customers	\$48,674,821	\$27,370,396	\$-	\$76,045,217
Depreciation and amortization	940,611	3,497,827	3,375	4,441,813
Earnings from equity investment	49,418	-	-	49,418
Interest expense	231,490	11,450	265,183	508,123
Income (loss) from operations	4,457,592	(3,382,235 )	(3,971,760 )	(2,896,403 )
Segment assets	44,127,035	35,010,182	13,916,656	93,053,873
Intangible assets	8,043,909	11,295,982	8,063	19,347,954
Goodwill, net	13,020,547	8,866,411	-	21,886,958
Expenditures for segment assets	904,701	256,774	-	1,161,475

The following information represents segment activity for the year ended December 31, 2013:

	Power and Electro- Mechanical	Gas	Other	Totals
Revenues from external customers	\$42,795,060	\$17,856,605	\$-	\$60,651,665
Depreciation and amortization	864,587	2,411,112	3,375	3,279,074
Earnings from equity investment	24,766	-	-	24,766
Interest expense	113,694	6,293	322,862	442,849
Income (loss) from operations	3,396,452	(36,993 )	(3,475,944 )	(116,485 )
Segment assets	40,445,788	42,127,016	16,586,787	99,159,591
Intangible assets	8,339,470	15,161,486	11,438	23,512,394
Goodwill, net	13,036,471	9,412,142	-	22,448,613
Expenditures for segment assets	2,003,037	935,081	-	2,938,118

The following information represents revenue by country for the years ended December 31, 2014 and 2013:

Year	USA	United Kingdom	All Others	Total
2014	\$37,051,071	\$ 25,920,740	\$13,073,406	\$76,045,217
2013	33,073,399	16,561,767	11,016,499	60,651,665
2012	31,662,198	220,547	9,201,844	41,084,589

### Reclassification

Certain amounts from the prior period have been reclassified to conform to the current period presentation including, \$268,287 and \$250,837 of depreciation and amortization expense that were reclassified to cost of revenues from depreciation and amortization expense on the consolidated statements of operations for the year ended December 31, 2013 and 2012, respectively, and \$9,648 of loss on disposals of fixed assets that was classified to operating expenses from other expenses for the year ended December 31, 2013.

### Recent Accounting Pronouncements

In March 2013, the FASB issued Accounting Standards Update 2013-05, “*Foreign Currency Matters (Topic 830): Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.*” ASU 2013-05 provides updated guidance to clarify a parent company’s accounting for the release of the cumulative translation adjustment into net income upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. This guidance is effective for periods beginning after December 15, 2013, and is to be applied prospectively to derecognition events occurring after the effective date. This ASU had no impact on the Company’s condensed consolidated financial statements or financial statement disclosures.

In July 2013, the FASB issued Accounting Standards Update (“ASU”) No. 2013-11, “*Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Credit Carryforward Exists.*” ASU No 2013-11 provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carry forward exists. The amendments in this update are effective for fiscal years and interim reporting periods beginning after December 15, 2013. The adoption of this provision had no material impact on the Company’s financial condition or results of operations.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, “*Revenue from Contracts with Customers*” (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an

amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

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In June 2014, the FASB issued Accounting Standards Update No. 2014-12, “*Compensation – Stock Compensation (Topic 718) – Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*” (ASU 2014-12). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The standard is effective for annual periods and interim period within those annual periods beginning after December 15, 2015, early adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2014-12 on our consolidated financial statements.

In January 2015, the FASB issued Accounting Standards Update No. 2015-01, “*Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*” (ASU 2015-01). ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this provision is not expected to have an impact on the Company’s financial condition or results of operations.

### 3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

December 31, 2014	Level 1	Level 2	Level 3	Total
Money market securities	\$1,280,505	\$-	\$ -	\$1,280,505
Certificates of Deposit	6,845,000	-	-	6,845,000
Commercial Paper	-	2,249,361	-	2,249,361
Corporate Notes	-	2,815,339	-	2,815,339
Total assets	\$8,125,505	\$5,064,700	\$ -	\$13,190,205
Derivative instruments payable	\$-	\$599,698	\$ -	\$599,698
Total liabilities	\$-	\$599,698	\$ -	\$599,698

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

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

	For the Year Ended December 31, 2014 Derivative Liability
Balance at December 31, 2013	\$ 427,818
Transfer of liabilities out of Level 3	(427,818 )
Balance at December 31, 2014	\$ -

### 4. ACQUISITION



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

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

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

The allocation of the purchase price is as follows:

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

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

The table below summarizes the unaudited condensed pro forma information of the results of operations of CUI Global, Inc. for the years ended December 31, 2013 and 2012 as though the acquisition had been completed as of January 1, 2013 and 2012:

	For the years ended December 31, 2013			
	CUI Global	Orbital Gas Systems Ltd.	Adjustments (restated)	Pro Forma (restated)
Gross revenue	\$60,651,665	\$4,569,510	\$ -	\$65,221,175
Total expenses	61,594,778	5,383,677	(1) 588,343	67,566,798
Net profit (loss)	\$(943,113 )	\$(814,167 )		\$(2,345,623 )

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For the years ended December 31, 2012

	CUI Global	Orbital Gas Systems Ltd.	Adjustments (restated)	Pro Forma (restated)
Gross revenue	\$41,084,589	\$23,017,544	(2) \$2,369,742	\$66,471,875
Total expenses	\$43,610,910	\$18,964,674	(3) \$4,848,084	\$67,423,668
Net profit (loss)	\$(2,526,321)	\$4,052,870		\$(951,793)

Adjustment to recognize the amortization expense of \$731,345 of acquisition related intangible assets and the (1) provision for tax benefit of \$143,001 associated with the deferred tax liability as though the acquisition had occurred at the beginning of the period.

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- (2) Adjustment to recognize US GAAP adjustments for percentage of completion revenues of \$2,369,742 completed during the period.

- (3) Adjustment for US GAAP recognition of \$2,369,984 of cost of revenues on percentage of completion revenues recognized under US GAAP, \$3,007,368 of amortization of acquisition related intangible assets, and provision for tax benefit of \$614,415 associated with the deferred tax liability as though the acquisition had occurred at the beginning of the period and \$85,147 for US GAAP adjustment for accrued compensation.

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

## 5. PROPERTY AND EQUIPMENT, NET

Property and equipment is summarized as follows at December 31, 2014 and 2013:

	2014	2013
Land	\$1,266,160	\$1,294,840
Buildings and improvements	5,395,427	5,264,992
Equipment	4,403,219	3,474,005
Computers and software	1,044,336	865,146
	12,109,142	10,898,983
Less accumulated depreciation	(3,879,153 )	(2,692,420 )
	\$8,229,989	\$8,206,563

Depreciation expense for the years ended December 31, 2014, 2013 and 2012 was \$1,003,291, \$756,871 and \$579,861, respectively.

During the year ended December 31, 2014, the Company disposed of \$1,014,322 of property and equipment with an accumulated depreciation at disposal of \$987,834 and recognized a loss on disposal of \$26,488.

During 2013, the Company acquired our Tualatin, Oregon headquarters facility. For further discussion regarding this asset purchase, see Note 9. Notes Payable.



## 6. GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2014 and 2013, the gross carrying amount and accumulated amortization of intangible assets, other than goodwill, are as follows:

	* Estimated Useful Life	December 31, 2014 Gross Carrying Amount	Accumulated Amortization	Identifiable Intangible Assets, less Accumulated Amortization	December 31, 2013 Gross Carrying Amount	Accumulated Amortization	Identifiable Intangible Assets, less Accumulated Amortization
Finite-lived intangible assets							
Order backlog	2	\$3,460,530	\$(3,027,963)	\$432,567	\$3,673,526	\$(1,377,572)	\$2,295,954
Tradename - Orbital	10	1,860,734	(325,628)	\$1,535,106	1,975,262	(148,141)	\$1,827,121
Trade mark and tradename - V-Infinity	5	1,095,400	(547,700)	\$547,700	1,095,400	(328,620)	\$766,780
Customer list - Orbital	10	7,234,806	(1,266,091)	\$5,968,715	7,680,110	(576,012)	\$7,104,098
Technology rights	20**	652,778	(180,056)	\$472,722	715,863	(122,790)	\$593,073
Technology - Based Asset - Know How	12	2,930,888	(427,421)	\$2,503,467	3,111,286	(194,455)	\$2,916,831
Technology - Based Asset - Software	10	635,259	(111,170)	\$524,089	674,359	(50,574)	\$623,785
Other intangible assets	***	160,638	(98,465)	62,173	156,970	(73,633)	83,337
		18,031,033	(5,984,494)	12,046,539	19,082,776	(2,871,797)	16,210,979
Indefinite-lived intangible assets							
Trade mark and tradename - CUI		4,892,856	-	4,892,856	4,892,856	-	4,892,856
Customer list - CUI		1,857,000	-	1,857,000	1,857,000	-	1,857,000
Patents pending technology		551,559	-	551,559	551,559	-	551,559

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7,301,415      -                      7,301,415      7,301,415      -                      7,301,415

Identifiable intangible assets	\$25,332,448	\$(5,984,494)	\$19,347,954	\$26,384,191	\$(2,871,797)	\$23,512,394
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\* All intangibles are reviewed annually for impairment, or sooner if circumstances change.

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

\*\*\* Other intangible assets are amortized over an appropriate useful life, as determined by management in relation to the other intangible asset characteristics.

Management reviews the goodwill and other intangible assets for impairment when facts or circumstances suggest. As of December 31, 2014, management has evaluated the finite-lived and indefinite-lived goodwill and other intangible assets and believes no additional impairment exists.

Amortization expense from continuing operations for the years ended December 31, 2014, 2013 and 2012 amounted to \$3,438,522, \$2,522,203 and \$150,432, respectively.

As of December 31, 2014, and 2013, the carrying amount of goodwill was \$21,886,958 and \$22,448,613. The decrease in goodwill during 2014 is related to the foreign exchange rate changes between USD and British Pounds Sterling and their related impact on the goodwill associated with the Orbital Gas Systems acquisition.

*Order backlog*

As of December 31, 2014, \$3,460,530 of costs related to Orbital order backlog have been capitalized. Amortization expense of order backlog during 2014 was \$1.8 million compared to \$1.3 million and \$0 in 2013 and 2012, respectively, as this asset was acquired with the acquisition Orbital in 2013. The estimated annual amortization expense related to order backlog as of December 31, 2014 is expected to be \$432,567 in 2015.

*Trademarks and trade name*

As of December 31, 2014, \$4,892,856 of costs related to CUI, \$1,095,400 of costs related to the V-Infinity brand, and \$1,860,734 related to Orbital trademarks and trade names have been capitalized. Amortization expense of trademarks and trade names during 2014 was approximately \$416 thousand compared to \$360 thousand and \$110 thousand in 2013 and 2012, respectively. During 2012, management determined that the intangible, trademark and trade name V-Infinity within the power and electro-mechanical segment had an estimated useful life remaining of 5 years, and an impairment of \$278,428 was necessary. The estimated annual amortization expense related to trademarks and trade names as of December 31, 2014 is expected to be \$405,153 in 2015, \$405,153 in 2016, \$295,613 in 2017, \$186,073 in 2018, \$186,073 in 2019 and \$604,741 thereafter.

*Customer lists*

As of December 31, 2014, \$7,234,806 of costs related to the Orbital customer lists and \$1,857,000 related to the CUI customer lists have been capitalized. Amortization expense of customer lists during 2014, 2013 and 2012 was approximately \$768 thousand, \$548 thousand and \$0, respectively. The estimated annual amortization of the intangible, customer list Orbital as of December 31, 2014 is expected to be \$723,481 in 2015, \$723,481 in 2016, \$723,481 in 2017, \$723,481 in 2018, \$723,481 in 2019 and \$2,351,310 thereafter.

*Technology rights*

As of December 31, 2014, \$652,778 of costs related to technology rights have been capitalized. Technology rights are amortized over a twenty year life. Amortization expense of technology rights during 2014 was approximately \$68 thousand compared to \$44 thousand in 2013 and \$27 thousand in 2012. The estimated annual amortization expense related to existing technology rights as of December 31, 2014 is expected to be \$59,647 in 2015, \$48,777 in 2016, \$48,777 in 2017, \$48,777 in 2018, \$48,777 in 2019 and \$217,967 thereafter.

*Technology-based assets*

As of December 31, 2014, \$2,930,888 of technology-based assets know how have been capitalized. Also at December 31, 2014, \$635,259 of technology-based assets software have been capitalized. Amortization expense of technology-based assets during 2014, 2013 and 2012 was approximately \$327 thousand, \$233 thousand and \$0, respectively, as these assets were acquired in 2013 with the acquisition of Orbital. The estimated annual amortization expense related to existing technology-based assets as of December 31, 2014 is expected to be \$307,767 in 2015, \$307,767 in 2016, \$307,767 in 2017, \$307,767 in 2018, \$307,767 in 2019 and \$1,488,721 thereafter.

*Debt offering costs*

During the year ended December 31, 2013, the amortization expense related to debt offering costs was \$43 thousand and \$73 thousand in 2012. There was no amortization expense of debt offering costs in 2014 as the debt offering costs



were fully amortized in 2013.

*Other intangible assets*

As of December 31, 2014, \$160,638 of other intangible assets have been capitalized. These assets are amortizing over various estimated useful lives based on their individual characteristics. During 2014, 2013 and 2012, the amortization expense related to other intangible assets was approximately \$25 thousand, \$25 thousand and \$14 thousand, respectively. The estimated annual amortization expense related to existing other intangible assets as of December 31, 2014 is expected to be \$25,261 in 2015, \$22,620 in 2016, \$8,366 in 2017, \$1,398 in 2018, \$1,031 in 2019 and \$3,497 thereafter.

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**7. CAPITAL LEASES**

The following is an analysis of the leased property under capital leases by major classes as of December 31, 2014 and 2013:

Classes of Property	Asset Balances at December 31,	
	2014	2013
Motor vehicles	\$172,624	\$336,713
Equipment	22,079	23,438
Less: Accumulated depreciation	(75,663)	(162,765)
	\$119,040	\$197,386

The following summarizes the current and long term portion of capital leases at December 31, 2014 and 2013:

	Balances at December 31,	
	2014	2013
Current leases payable	\$32,723	\$83,904
Long term leases payable	74,071	58,363
	\$106,794	\$142,267

	2015	2016	2017	2018	2019	Thereafter	Total
Minimum lease payments	\$32,723	\$43,339	\$30,732	\$ -	\$ -	\$ -	\$106,794

**8. INSTRUMENTS AND RISK MANAGEMENT**

The Company has limited involvement with derivative instruments and does not trade them. The Company does use derivatives to manage certain interest rate and foreign currency exchange rate exposures.

As at December 31, 2014, 2013 and 2012, the Company had no derivative instruments designated as effective hedges.

From time to time, to minimize risk associated with foreign currency exposures on receivables for sales denominated in foreign currencies, the Company enters into various foreign currency forward exchange contracts which are intended to minimize the currency exchange rate exposure from expected future cash flows. The forward currency contracts have maturity dates of up to one year at the date of inception. At December 31, 2014, 2013 and 2012, the notional amount for these foreign currency forward exchange contracts outstanding was \$0, \$462,477 and \$0, respectively.

We also entered into an interest rate swap which has a maturity date of ten years from the date of inception.

In conjunction with the mortgage note payable for the purchase of the headquarters facility completed in 2013, the Company entered into a Swap Transaction Confirmation agreement effective October 1, 2013 incorporating the terms and definitions of the International Swaps and Derivatives Association, Inc. (ISDA) that effectively fixes our effective annual interest rate at 6.27%.

The impact of these instruments on the statement of operations in 2014, 2013 and 2012 is summarized below:

	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income		
		2014	2013	2012
Foreign currency forward exchange contracts:	Other income	\$-	\$2,468	\$ -
	Other (expense)	-	(271 )	-
Interest rate swap:	Derivative (expense)	171,880	427,818	-

## 9. NOTES PAYABLE

Notes payable is summarized as follows at December 31, 2014 and 2013:

	December 31,	
	2014	2013
(a) Promissory Note - bank	\$3,604,242	\$3,681,056
(b) Acquisition Note Payable	5,303,683	5,303,683
Ending Balance	\$8,907,925	\$8,984,739

On October 1, 2013, the funding of the purchase of our Tualatin, Oregon corporate offices from Barakel, LLC was completed. The purchase price for this asset was \$5,050,000. The purchase was funded, in part, by a promissory note payable to Wells Fargo Bank in the amount of \$3,693,750 plus interest at the rate of 2% above LIBOR, payable over ten years with a balloon payment due at maturity. It was secured by a deed of trust on the purchased property which was executed by CUI Properties, LLC and guaranteed by CUI Global, Inc. During 2014, the Company made principal payments of approximately \$77 thousand against the mortgage promissory note payable. At December 31, 2014, the balance owed on the mortgage promissory note payable was \$3,604,242, of which \$80,746 and \$3,523,496 were in current and long term liabilities, respectively.

In May 2013, the Company utilized funds from the equity sale to pay down \$2,000,000 of principal owing on the note payable owed to International Electronic Devices, Inc. (formerly CUI, Inc.) associated with the acquisition of CUI, Inc. In conjunction with the 2013 principal payment, the promissory note terms were amended to extend the due date to May 15, 2020 and the interest rate was reduced to 5% per annum, with interest payable monthly and the principal due as a balloon payment at maturity. The note contains a contingent conversion feature, such that in the event of default on the note the holder of the note can, at the holders option, convert the note principal into common stock at \$0.001 per share. As of December 31, 2014, the Company is in compliance with all terms of this promissory note and the conversion feature is not effective.

The following table details the maturity of the notes payable and working capital line of credit for CUI Global, Inc. as of December 31, 2014:

	2015	2016	2017	2018	2019	Thereafter
Notes Payable Maturities:	\$80,746	\$84,874	\$89,218	\$93,780	\$98,574	\$8,460,733

## 10. WORKING CAPITAL LINE OF CREDIT

On September 27, 2013, our wholly owned subsidiary, CUI, Inc., closed on a two year revolving Line of Credit (LOC) with Wells Fargo Bank in the principal amount of four million dollars (\$4,000,000) with an expiration of October 1, 2015. The interest rate on any outstanding balance is 1.75% above either the daily one month LIBOR or the LIBOR in effect on the first day of the applicable fixed rate term (no balance owing at December 31, 2014). On October 1, 2014, the Company extended the term of the LOC to October 1, 2016. At December 31, 2014, the LOC is secured through a security agreement on CUI, Inc. accounts receivable of \$4.2 million, CUI, Inc. general intangibles of \$8.0 million, inventory of \$5.0 million and equipment of CUI, Inc. of \$1.3 million. CUI Global, Inc., the parent company is a payment guarantor of the LOC. Other terms included in this revolving line of credit for CUI Inc. limit capital expenditures by CUI Inc. to \$1.2 million in any fiscal year, this revolving LOC effectively satisfies in full and terminates the earlier LOC with Wells Fargo Bank.

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

## 11. COMMITMENTS AND CONTINGENCIES

### Legal Matters

The Company may be involved in certain legal actions arising from the ordinary course of business. While it is not feasible to predict or determine the outcome of these matters, we do not anticipate that any of these matters, or these matters in the aggregate, will have a material adverse effect on the financial position or results of operations.

### Commissions, Royalty and License Fee Agreements

The Company has minimum commitments under certain royalty agreements. Royalty and license fees are paid in accordance with their related agreements, either on a monthly or quarterly basis. As of December 31, 2014, \$0.1 million was accrued for royalty and license fees payable, and is reported as a current liability in accrued expenses.

External Sales Representative Commissions

Commissions to external sales representatives are paid in accordance with their related agreements, either on a monthly or annual basis. As of December 31, 2014, \$0.2 million was accrued for commissions to external sales representatives, and is reported as a current liability in accrued expenses.

Employment Agreements

As of the year ended December 31, 2014, the following employment agreements were in place:

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*William J. Clough, President/Chief Executive Officer and General Counsel of CUI Global, Inc., Chief Executive Officer of CUI, Inc. and Chief Executive Officer of Orbital Gas Systems, Ltd.*

Mr. Clough is employed under a multi-year employment contract with the Company, which was recently extended to run to and through December 31, 2016. Said contract provides, in relevant part, for an annual salary of \$460,000 which became effective July 1, 2013 and includes bonus provisions for each calendar year and entitles Mr. Clough to a two year severance package and an annual 4% cost of living adjustment. Bonuses are approved quarterly based on various performance-related factors and an evaluation of current performance. All such bonus payments shall be paid to Mr. Clough in equal monthly installments following the period in which the bonus is earned and shall be paid on the 15th day of each month. During 2013, in accordance with the bonus provisions of his employment contract, Mr. Clough received 33,350 shares of common stock with a fair value of \$160,080. At December 31, 2014 and 2013, there was an accrual of \$14,167 and \$14,167, respectively, for compensation owed to Mr. Clough. Effective June 24, 2013, Mr. Clough received a bonus option to purchase 200,000 common shares within ten years from date of issuance, at a price of \$6.25 per share that vests one third each year over 3 years. Under the terms of Mr. Clough's contract extension, effective September 21, 2012, Mr. Clough received a bonus option to purchase 330,000 common shares, within ten years from date of issuance, at a price of \$6.00 per share that vests in equal monthly installments over 4 years. Effective April 16, 2012, Mr. Clough received a bonus option to purchase 37,177 common shares, within ten years from date of issuance, at a price of \$4.56 per share that vests over 4 years: 25% at year one and thereafter in equal monthly installments.

*Matthew M. McKenzie, President of CUI, Inc. and Chief Operating Officer and Corporate Secretary of CUI Global, Inc.*

Mr. McKenzie is employed under a three year employment contract with the Company, which was extended to December 31, 2015 and provides, in relevant part, for an annual salary of \$250,000 effective July 1, 2013, an annual 4% cost of living adjustment, an eighteen month severance package and bonus provisions up to one hundred twenty-five percent of base salary to be based on performance objectives, goals, and milestones for each calendar year, including adjusted EBITDA performance in the power and electro-mechanical segment. The bonus includes a discretionary bonus of up to twenty-five percent of salary based upon the reasonable judgment of the compensation committee. Employee has the ability to earn a larger bonus based on the performance criteria set forth and the reasonable judgment and discretion of the compensation committee. Bonuses are approved quarterly based on the above factors and an evaluation of current performance. Previous to July 1, 2013, Mr. McKenzie's employment contract provided, in relevant part, for an annual salary of \$205,000 and bonus provisions for each calendar year in which the CUI Global year end Statement of Operations shows a Net Profit and the Gross Revenue equal to or that exceeds fifteen percent (15%), but less than thirty percent (30%), of the immediate preceding calendar year, he shall be entitled to receive a cash bonus in an amount equal to fifty percent (50%) of his prior year base salary in addition to any other compensation to which he may be entitled; provided, however, that he shall be entitled to the bonus only if he has been employed by the Company during that entire calendar year. In substitution of the bonus percentages described above, he shall be entitled to receive, in any year in which annual Gross Revenue exceeds by 30% of the prior calendar year gross revenue, a sum equal to 100% of his prior year base salary. Bonuses are approved quarterly based on the above factors and an evaluation of current performance. All such bonus payments shall be paid to Mr. McKenzie in equal monthly installments following the period in which the bonus is earned and shall be paid on the 15th day of each month. During 2012, in accordance with the bonus provisions of his employment contract, Mr. McKenzie received 6,750 shares of common stock with a fair value of \$32,400. At December 31, 2014 and 2013 there was an accrual of \$18,750 and \$8,542, respectively, for compensation owed to Mr. McKenzie. Effective June 24, 2013, Mr. McKenzie received a bonus option to purchase 50,000 common shares within ten years from date of

issuance, at a price of \$6.25 per share that vests one third each year over 3 years. Effective April 16, 2012, Mr. McKenzie received a bonus option to purchase 15,100 common shares as COO, within ten years from date of issuance, at a price of \$4.56 per share that vests over 4 years: 25% at year one and thereafter in equal monthly installments.

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*Daniel N. Ford, Chief Financial Officer of CUI Global Inc. and Subsidiaries*

Mr. Ford is employed under a three year employment contract with the Company, which was extended to December 31, 2015 and provides, in relevant part, for an annual salary of \$250,000 effective July 1, 2013, an annual 4% cost of living adjustment, an eighteen month severance package and bonus provisions up to one hundred twenty-five percent of base salary to be based on performance objectives, goals and milestones for each calendar year including revenue and EBITDA performance. The bonus includes a discretionary bonus of up to twenty-five percent of salary based upon the reasonable judgment of the compensation committee. Employee has the ability to earn a larger bonus based on the performance criteria set forth and the reasonable judgment and discretion of the compensation committee. Previous to July 1, 2013, Mr. Ford's employment contract provided, in relevant part, for an annual salary of \$195,000 and bonus provisions for each calendar year, in which the CUI Global year end Statement of Operations shows a Net Profit and the Gross Revenue equal to or that exceeds fifteen percent (15%), but less than thirty percent (30%), of the immediate preceding calendar year, he shall be entitled to receive a cash bonus in an amount equal to fifty percent (50%) of his prior year base salary in addition to any other compensation to which he may be entitled; provided, however, that he shall be entitled to the bonus only if he has been employed by the Company during that entire calendar year. In substitution of the bonus percentages described above, he shall be entitled to receive, in any year in which annual Gross Revenue exceeds by 30% of the prior calendar year gross revenue, a sum equal to 100% of his prior year base salary. Bonuses are approved quarterly based on the above factors and an evaluation of current performance. All such bonus payments shall be paid to Mr. Ford in equal monthly installments following the period in which the bonus is earned and shall be paid on the 15th day of each month. During 2012, in accordance with the bonus provisions of his employment contract, Mr. Ford received 10,650 shares of common stock with a fair value of \$51,120. At December 31, 2014 and 2013 there was an accrual of \$10,417 and \$8,125, respectively, for compensation owed to Mr. Ford. Effective June 24, 2013, Mr. Ford received a bonus option to purchase 100,000 common shares within ten years from date of issuance, at a price of \$6.25 per share that vests one third each year over 3 years. Effective April 16, 2012, Mr. Ford received a bonus option to purchase 12,598 common shares, within ten years from date of issuance, at a price of \$4.56 per share that vests over 4 years: 25% at year one and thereafter in equal monthly installments.

Leases

As an integrated part of the Orbital Gas Systems Limited acquisition, CUI Global, Inc. acquired operating leases of Orbital facilities for office and manufacturing space requirements. During the year ended December 31, 2014, the monthly base rent of these leases was approximately \$15 thousand. Additionally, CUI Japan leases office space. During the year ended December 31, 2014, the monthly base rent of this lease was approximately \$3 thousand.

Rental expense was \$0.2 million, \$0.5 million and \$0.6 million in 2014, 2013 and 2012, respectively, and is included in selling, general and administrative on the statement of operations.

	2015	2016	2017	2018	2019	Thereafter	Total
Operating leases	\$219,993	\$66,878	\$9,108	\$ -	\$ -	\$ -	\$295,979



## 12. STOCKHOLDERS' EQUITY

### Common Stock Dividend Restrictions

As of December 31, 2014, there are no restrictions on common stock dividends. Prior to September 17, 2012, the date the Board of Directors passed a resolution eliminating and discontinuing all preferred stock, there was a restriction on the common stock dividends as any cumulative preferred stock dividends are required to be paid prior to any common stock dividends being paid. Also, at December 31, 2014 and 2013, retained earnings were not restricted upon involuntary liquidation.

### Common Stock Issuances

Effective February 17, 2012, the issued and outstanding shares of the Company's \$0.001 par value common stock were reverse split at a ratio of one for thirty (1:30) as a part of our plan to up-list our common stock on to the NASDAQ Stock Market. All fractional shares resulting from the reverse split were rounded up to the next full numbers. As a result of the rounding up effect, 97 additional shares of common stock were issued that are included in the S-1 registration statement. The company received no monetary consideration for these 97 shares.

During February 2012 our Form S-1 registration statement became effective that allowed us to sell 2,222,222 shares of common stock to our underwriter. We received \$8,913,302 in net proceeds from this sale after related costs for this transaction. In addition, our Form S-1 registration statement included 333,333 shares of common stock that were sold in March 2012 to our underwriter pursuant to the over-allotment provision of our underwriting contract for which the Company received \$1,387,499 in net proceeds after related costs for this transaction.

Also during 2012, pursuant to stock purchase agreements, the Company sold to 804,332 shares of common stock for which the Company received \$3,228,463 in net proceeds after related costs for these transactions.

During March 2012, the Company received \$3,021 for the exercise of 10,071 warrants which had been granted previously in relation to a note provided to the Company.

During 2012, 126,500 shares of common stock were issued to consultants for strategic investor marketing services rendered for the benefit of the company. A \$658,695 consulting expense was recorded in relation to these shares based on the fair market value of the stock on the dates of grant.

During 2012, 61,596 shares of common stock were issued in relation to common stock bonuses granted to officers and employees. 50,750 of these common shares were issued to three officers with a fair value of \$243,600 in accordance with their employment agreement bonus provisions. Three employees were awarded a total of 10,846 common shares with a fair value total of \$55,000 as of the date of issuance.

During 2012, holders of 50,543 shares of convertible Series A preferred stock completed the conversion of those shares into common shares. At the same time, the holders also converted accrued preferred stock dividends of \$5,054 into common shares. For these conversions, the holders received 9,661 common shares based upon the conversion features of the convertible Series A preferred stock and accrued preferred stock dividends.

In September 2012, 1,052 shares of common stock were issued as a royalty payment to James McKenzie, majority owner of CUI, Inc. prior to the May 2008 asset acquisition by CUI Global. The shares were valued at \$6,638.

During April 2013 our Form S-1 registration statement that became effective to register 9,660,000 shares of \$0.001 par value common stock that included 1,260,000 over-allotment shares. These shares of registered stock were sold to our underwriters for \$48,300,000 before related costs and commissions from this transaction.

During June 2013, 16,305 shares of common stock were issued in relation to May 2013 grants of common stock bonuses to twenty-two employees. These shares were expensed at a fair value of \$91,348 as of the grant date.

On June 13, 2013, 4,578 shares of common stock were issued in accordance with a royalty agreement on the GasPT2 products to James McKenzie, majority owner of CUI, Inc. prior to the May 2008 asset acquisition by CUI Global. The fair value of these shares as of the date of issuance was \$24,813.

On December 27, 2013, 2,500 shares of common stock were issued to a consultant for services. These shares were expensed at a fair value of \$15,399 as of the date of issuance.

During January, February, March, April and November 2014, 31,850 shares of common stock were issued to three employees, one officer and one former director through cashless exercises of stock purchase options. The Company received \$0 from these issuances.

During February, March, August and December 2014, 131,365 shares of common stock were issued to four consultants, one of whom was a former board member, as consideration for services. Of these agreements, one was split into two phases with the first phase completing in 2014 and being fully expensed. The second phase of this consulting agreement could result in up to an additional 150,000 shares of common stock being granted subject to sales related performance criteria being achieved. At December 31, 2014, those criteria have not been achieved and no shares have been granted for the second phase of the agreement. The 131,365 shares issued during 2014 were expensed at a fair value of \$932,250.

On March and December 2014, 4,555 shares of common stock were issued in accordance with a royalty agreement on the GasPT2 products to James McKenzie, majority owner of CUI, Inc. prior to the May 2008 asset acquisition by CUI Global. The fair value of these shares as of the date of grant was \$31,447.

On June 25, 2014, 5,624 shares of common stock were issued as an annual performance bonus to an employee. These shares were expensed at a fair value of \$50,000 as of the date of issuance.

In August 2014, 6,435 shares of common stock were issued to three directors as director compensation. These shares were expensed at a fair value of \$47,683 as of the grant date.

On December 29, 1,248 shares of common stock were issued as 2014 fourth quarter board compensation to a board member. The shares were expensed at a fair value of \$9,750 as of the grant date.

Non-Employee Stock Warrants

During the years ended December 31, 2014 and 2013, no warrants were issued or outstanding.

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A summary of the warrants issued to non-employees for services as of December 31, 2012 and changes during the year is presented below:

	2012	
	Number of	Weighted Average
	Warrants	Exercise Price (\$)
Balance at beginning of period	10,071	0.30
Granted	-	-
Exercised	(10,071 )	0.30
Forfeited (expired)	-	-
Balance at end of period	-	-
Warrants exercisable at end of period	-	-
Weighted average fair value of warrants granted during the period		-

#### Employee Stock Options and Warrants

All options and warrants issued are presented at post reverse quantities.

On May 16, 2008 the Company's Board of Directors adopted the Waytronx, Inc. 2008 Equity Incentive Plan (the "Equity Incentive Plan") and authorized 1,500,000 shares of Common Stock to fund the Plan. At the 2008 Annual Meeting of Shareholders held on September 15, 2008, the Equity Incentive Plan was approved by the Company shareholders. At the 2009 Annual Meeting of Shareholders held on September 29, 2009, the shareholders approved an amendment to the 2008 Equity Incentive Plan to increase the number of common shares issuable under the plan from 1,500,000 to 3,000,000. All of these shares have been registered under Form S-8.

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

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

duration of 10 years.

On January 5, 2009 the Company Board of Directors received and approved a written report and recommendations of the Compensation Committee which included a detailed executive equity compensation report and market analysis and the recommendations of Compensia, Inc., a management consulting firm that provides executive compensation advisory services to compensation committees and senior management of knowledge-based companies. The Compensation Committee used the report and analysis as a basis for its formal written recommendation to the board. Pursuant to a January 8, 2009 board resolution the 2009 Equity Incentive Plan (Executive), a Non-Qualified Stock Option Plan, was created and funded with 4,200,000 shares of \$0.001 par value common stock. The Compensation Committee was appointed as the Plan Administrator to manage the plan. On October 11, 2010, CUI Global authorized an additional 3,060,382 options under the 2009 Equity Incentive Plan (Executive). On September 21, 2012, CUI Global authorized an additional 330,000 options under the 2009 Equity Incentive Plan (Executive).

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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, 2014, there are 1,324,501 shares of common stock available under the 2008 Equity Incentive Stock Plan and 201,361 available under the 2009 Equity Incentive Plan (Executive).

During the years ended 2014, 2013 and 2012, the Company recorded compensation expense of \$0.7 million, \$0.4 million and \$0.2 million, respectively, for stock options that the requisite service was performed during the year. The compensation expense is recorded over the vesting period based upon fair market value of the options using the Black Scholes option model in accordance with FASB ASC 718 as discussed in section Employee Stock Options and Warrants.

The remaining total compensation cost related to nonvested option awards not yet recognized as of December 31, 2014 is \$0.7 million which is expected to be recognized over the weighted average remaining vesting period of 1.57 years.

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A summary of the options issued to employees and directors as of December 31, 2014, 2013 and 2012 and changes during the year are presented below:

	2012 Number of Warrants and Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value (\$)
Balance at beginning of year	259,299	7.75	7.69 Years	-
Exercised	-	-		
Expired	(3,000 )	5.33		
Forefeited	-	-		
Granted	425,842	5.68		
Balance at end of year	682,141	6.47	8.52 Years	88,000
Exercisable	262,952	7.31		9,252
	2013 Number of Warrants and Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value (\$)
Balance at beginning of year	682,141	6.47	8.52 Years	88,000
Exercised	-	-		
Expired	(1,334 )	5.70		
Forefeited	-	-		
Granted	350,000	6.25		
Balance at end of year	1,030,807	6.39	8.19 Years	320,637
Exercisable	410,593	6.80		161,511
	2014 Number of Warrants and Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value (\$)
Balance at beginning of year	1,030,807	6.39	8.19 Years	320,637
Exercised	(129,265 )	7.35		
Expired	(1,000 )	5.14		
Forefeited	-	-		
Granted	97,890	7.11		
Balance at end of year	998,432	6.34	7.58 Years	1,205,839

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Exercisable	673,473	6.41	789,356
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As of December 31, 2014, 2013 and 2012, there were 324,959, 620,214 and 419,189, respectively, non-vested options issued to employees and directors.

The weighted average fair value of options granted during 2014, 2013 and 2012 were \$2.14, \$1.85 and \$2.28, respectively.

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The exercise price for granted options in relation to the market price during 2014, 2013 and 2012 are as follows:

	2014	2013	2012
	(\$)	(\$)	(\$)
Exercise price lower than the market price	-	-	-
Exercise price equaled the market price	-	-	4.56 - 4.58
Exercise price exceeded the market price	6.92 - 8.15	6.25	6.00

The fair value of options granted during 2014, 2013 and 2012 was estimated on the dates of the grants using the following assumptions:

	2014	2013	2012
Dividend yield	0	% 0	% 0
Expected volatilities	34% - 61%	44	% 84% - 91%
Risk-free interest rates	1.63% - 1.72%	0.73	% 0.27
Expected lives	5 Years	5 Years	2 Years

The following tables summarize information about employee stock options outstanding at December 31, 2014, 2013 and 2012:

Options Outstanding at December 31, 2014				Options Exercisable December 31, 2014	
Range of Exercise Price (\$)	Number Outstanding at December 31, 2014	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price (\$)	Number Exercisable at December 31, 2014	Weighted Average Exercise Price (\$)
4.56	63,561		4.56	61,102	4.56
4.58	7,500		4.58	7,500	4.58
5.70	37,416		5.70	37,416	5.70
6.00	330,000		6.00	192,500	6.00
6.25	350,000		6.25	175,000	6.25
6.92	69,138		6.92	69,138	6.92
7.50	71,196		7.50	71,196	7.50
8.15	15,000		8.15	5,000	8.15
9.00	54,621		9.00	54,621	9.00
	998,432	7.58 Years	6.34	673,473	6.41

Options Outstanding at December 31, 2013				Options Exercisable December 31, 2013	
Range of Exercise Price (\$)	Number Outstanding at December 31, 2013	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price (\$)	Number Exercisable at December 31, 2013	Weighted Average Exercise Price (\$)
4.56	84,675		4.56	48,183	4.56
4.58	10,167		4.58	10,167	4.58
5.70	38,416		5.70	38,416	5.70
6.00	330,000		6.00	110,000	6.00
6.25	350,000		6.25	-	6.25
7.50	124,573		7.50	124,573	7.50
9.00	92,976		9.00	79,254	9.00
	1,030,807	8.19 Years	6.39	410,593	6.80

Options Outstanding at December 31, 2012				Options Exercisable December 31, 2012	
Range of Exercise Price (\$)	Number Outstanding at December 31, 2012	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price (\$)	Number Exercisable at December 31, 2012	Weighted Average Exercise Price (\$)

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Price (\$)	2012	Contractual Life	(\$)	December 31, 2012	(\$)
4.56	84,675		4.56	-	4.56
4.58	10,167		4.58	10,167	4.58
5.70	39,750		5.70	39,750	5.70
6.00	330,000		6.00	27,500	6.00
7.50	124,573		7.50	124,573	7.50
9.00	92,976		9.00	60,962	9.00
	682,141	8.52 Years	6.47	262,952	7.31

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**13. RELATED PARTY TRANSACTIONS**

The Company recorded investment income of \$49,418, \$24,766 and \$59,623 during 2014, 2013 and 2012, respectively, related to its interest in Test Products International (“TPI”). For further details regarding TPI, see Note 2 discussion Investment – Equity Method.

During 2014, 2013 and 2012, \$265,184, \$2,322,863 and \$3,468,221, respectively in principal and interest payments were made in relation to the promissory notes issued to related party, IED, Inc. The 2013 payment utilized \$2,000,000 from the equity sale proceeds for the repayment of principal. In conjunction with the 2013 principal payment, the promissory note terms were amended to extend the due date to May 15, 2020 and the interest rate was reduced to 5% per annum, with interest payable monthly and the principal due as a balloon payment at maturity. The 2012 payment utilized \$3,000,000 from the equity sale proceeds for the repayment of principal. At December 31, 2014, the balance of this note is \$5,303,683 and is held in long term notes payable, related party.

**14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The components of accumulated other comprehensive income (loss) are as follows:

	As of December 31,		
	2014	2013	2012
Foreign currency translation adjustment	\$268,352	\$1,837,961	\$(24,336)
Accumulated other comprehensive income (loss)	\$268,352	\$1,837,961	\$(24,336)

**15. INCOME TAXES**

Consolidated income (loss) before income taxes for the years ended December 31, 2014, 2013 and 2012 consisted of the following:

	2014	2013	2012
U.S. operations	\$(869,973)	\$(1,342,324)	\$(2,545,711)
Foreign operations	(2,657,479)	767	53,104

(Loss) before income tax \$(3,527,452) \$(1,341,557) \$(2,492,607)

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The income tax provision (benefit) for the years ended December 31, 2014, 2013 and 2012 consisted of the following:

	2014	2013	2012
Current:			
Federal	\$-	\$-	\$-
State and local	28,959	34,514	31,495
Foreign	(80,956 )	382,604	2,219
Total current provision (benefit)	(51,997 )	417,118	33,714
Deferred:			
Federal	-	-	-
State and local	-	-	-
Foreign	(674,177)	(815,562)	-
Total deferred provision (benefit)	(674,177)	(815,562)	-
Total income tax provision (benefit)	\$(726,174)	\$(398,444)	\$33,714

The following table provides a reconciliation of the federal statutory tax at 34% to the recorded tax provision (benefit) for the years ended December 31, 2014, 2013 and 2012, respectively:

	2014	2013	2012
Computed federal income taxes at the statutory rate (benefit)	\$(1,199,334)	\$(456,129)	\$(847,486)
State income taxes (net of federal benefit)	19,113	22,779	20,787
Permanent tax differences	(345,640 )	48,905	38,256
Foreign tax rates and tax credits differing from USA	501,760	(144,999)	-
Change in enacted tax rates applied to foreign deferred taxes	-	(379,236)	-
Change in valuation allowance	297,927	510,236	822,157
Total income tax provision (benefit)	\$(726,174 )	\$(398,444)	\$33,714

The Company accounts for income taxes under the asset-liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are provided when it is "more likely than not" that the benefits of existing deferred tax assets will not be realized in a future period. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2014, 2013 and 2012, respectively, are as follows:

	2014	2013 (revised)
Deferred tax assets:		
Net operating loss carryforwards	\$17,102,334	\$17,068,113
Property, plant and equipment	68,289	134,805
Contribution and other carryforwards	319,199	249,274
Inventory and accounts receivable reserves	354,484	398,593
Other	825,859	601,880
Valuation allowance	(18,553,658)	(18,255,731)
Deferred tax assets after valuation allowance	116,507	196,934
Deferred tax liabilities:		
Intangible Assets	(5,212,570 )	(6,108,826 )
Total deferred tax liabilities	(5,212,570 )	(6,108,826 )
Net deferred tax liabilities	\$(5,096,063 )	\$(5,911,892 )

As of December 31, 2014 and 2013, the Company recorded a valuation allowance of \$18.6 million and \$18.3 million, respectively. During the years ended December 31, 2014, 2013 and 2012, the Company recorded a change in valuation allowance of \$0.3 million, \$0.5 million and \$0.8 million, respectively. The Company has provided for a full valuation on existing deferred tax assets in the United States. As of December 31, 2014 and 2013 the Company's net deferred tax liability for USA purposes is approximately \$2.8M and \$2.8M, respectively related to basis differences for indefinite lived intangibles recorded for a prior US acquisition. As of December 31, 2014 and 2013 the Company's net deferred tax liability for foreign purposes is approximately \$2.3 and \$3.1, respectively related to basis differences for assets recorded for a prior foreign acquisition. As of December 31, 2014, the Company has available federal and state net operating loss carry forwards of approximately \$44.6 million and \$44.7 million, respectively, which have various expiration dates beginning in 2018 through 2034.

The Company files consolidated income tax returns for federal and many state jurisdictions in addition to separate subsidiary income tax returns in Japan and the United Kingdom. As of December 31, 2014, the Company is not under examination by any income tax jurisdiction. The Company is no longer subject to examination for years prior to 2011.

The Company accounts for income tax uncertainties using a threshold of "more-likely-than-not" in accordance with the provisions of ASC Topic 740, *Income Taxes* ("ASC 740"). As of December 31, 2014, the Company has reviewed

all of its tax filings and positions taken on its returns and has not identified any material current or future effect on its consolidated results of operations, cash flows or financial position. As such, the Company has not recorded any tax, penalties or interest on tax uncertainties. It is Company policy to record any interest on tax uncertainties as a component of income tax expense.

The Company has immaterial amounts of undistributed earnings of foreign subsidiaries at December 31, 2014 for which no deferred taxes have been provided. Such earnings are considered indefinitely invested outside of the United States. If these earnings were repatriated to the United States, the earnings would be subject to U.S. taxation. The amount of the unrecognized deferred tax liability associated with the undistributed earnings is immaterial as of December 31, 2014. Any unrecognized deferred tax liability would approximate the excess of the U.S. tax liability over the amount of creditable foreign taxes paid that would result from a full remittance of undistributed earnings.

During 2014, management identified an error related to the recognition of deferred tax temporary differences from a non-taxable acquisition of a business during 2008. Under ASC 850, fair value was allocated to the acquired assets, including identifiable intangibles, and liabilities with the excess of the purchase price over fair value recorded as goodwill. For tax purposes, the historical tax basis were retained from the acquisition thus creating temporary tax differences. Under ASC 750, deferred taxes were required to be recorded for tax temporary differences as a result of the acquisition.

During 2014, management identified a portion of the acquired identifiable indefinite-lived intangibles related to the 2008 acquisition for which no deferred tax liabilities were recognized. In addition, management identified an error in its tax filings since 2008 related to overstated tax deductions for amortization on acquired intangibles and goodwill for which no tax basis existed. Management determined that the deductions overstated net operating loss carryforwards and the associated valuation allowance, which had been previously disclosed.

Management determined that the unrecognized deferred tax liability on identifiable indefinite-lived intangibles related to the 2008 acquisition was approximately \$2.8 million. Accordingly the Company has revised its consolidated balance sheet as of January 1, 2012 by recording the \$2.8 million deferred tax liability with the offset increasing the Company's accumulated deficit since the effect of the correction relates to years prior to 2012. The consolidated balance sheets for December 31, 2013 and 2012 presented in the accompanying consolidated financial statements reflect this change. The result of this correction did not affect the Company's consolidated statements of operations, comprehensive income and loss or cash flows for the years ended December 31, 2013 and 2012. Accordingly, management believes that the effect of the correction represents an immaterial adjustment to the accompanying consolidated financial statements at December 31, 2013 and 2012. Management made the revisions to the accompanying consolidated financial statements because recording the correction in 2014 would have been material to the consolidated statement of operations for the year ended December 31, 2014.

In addition, the Company determined that no impact other than disclosure would result from the correction of the overstated net operating loss carryforwards which have been subject to a full valuation allowance. The reversal of the overstated deferred tax assets representing net operating loss carryforwards, would be completely offset by a reduction in existing valuation allowances for the same previous years. The Company has revised its income tax footnote disclosure as of January 1, 2012, to reflect these revisions to its deferred tax assets, valuation allowance and deferred tax liabilities with the corresponding impact flowing through in subsequent disclosures.

## **16. CONCENTRATIONS**

During 2014, 52% of revenues were derived from three customers at 30%, 16% and 6%. During 2013, 50% of revenues were derived from two customers at 33% and 17%. During 2012, 51% of revenues were derived from two customers at 47% and 4%.

The Company's major product lines in 2014 and 2013 were power and electro-mechanical products and natural gas infrastructure and high-tech solutions. During 2012, the company's major product lines were power and electro-mechanical products.

At December 31, 2014, of the gross trade accounts receivable totaling approximately \$12.1 million, 38% was due from three customers: 16%, 13% and 9%. At December 31, 2013, of the gross trade accounts receivable totaling approximately \$9.3 million, 25% was due from one customer. At December 31, 2012, 45% of the gross trade accounts receivable totaling approximately \$5.1 million, was due from two customers: 37% and 8%.

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During 2014, the Company had one supplier concentration of 11% related to inventory product received.

With the United Kingdom operations of Orbital Gas Systems, the Company also has foreign revenue and trade accounts receivable concentrations in the United Kingdom of 34% and 46%, respectively for the year ended December 31, 2014.

## **17. SUBSEQUENT EVENTS**

Management has reviewed for subsequent events and identified the following:

On January 2, 2015, pursuant to board service agreements, two board members received 2,500 shares of common stock each. These 5,000 shares were expensed at their grant date fair value of \$36,300.

Effective January 5, 2015, CUI Global began operations of Orbital Gas Systems, North America in Houston, Texas to represent the company gas segment in North America. In conjunction with this, the Company entered into a three year lease for our Houston facility.

Also on January 5, 2015, the employee hired as Director of Sales and Marketing for Orbital Gas Systems, North America, was granted a signing bonus of 17,655 shares of common stock which were expensed at their grant date fair value of \$125,000.

On March 2, 2015, 10,000 shares of common stock were issued, with a grant date fair value of \$62,600, to a consultant pursuant to an agreement for strategic investor marketing services to be rendered for the benefit of the company through July 1, 2016.

Effective March 6, 2015, CUI Global agreed to acquire specific assets of the privately held Canadian equipment manufacturer Tectrol, Inc., a leading designer and manufacturer of standard and custom power solutions. CUI Global agreed to purchase the assets of Tectrol for \$5.2 million subject to final closing adjustments. In addition, CUI entered into a five year lease of the former Tectrol facility.

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**18. QUARTERLY FINANCIAL INFORMATION – UNAUDITED**

Quarter ended:	March 31	June 30	September 30	December 31
2014				
Total revenue	\$ 16,899,909	\$ 19,214,193	\$ 21,376,621	\$ 18,554,494
Total cost of revenue	9,905,687	11,506,825	13,369,093	12,712,678
Gross profit	6,994,222	7,707,368	8,007,528	5,841,816
Gross profit percent	41 %	40 %	37 %	31 %
Selling, general and administrative	6,191,700	6,494,599	6,878,580	6,496,788
Depreciation and amortization	1,053,013	1,076,155	1,066,163	1,001,825
Research and development	269,852	328,765	322,969	247,272
Bad debt	(108,000 )	30,231	18,130	20,452
Loss on disposals of fixed assets	4,754	-	-	21,734
Impairment of intangible	-	-	-	32,355
Operating (loss)	\$(417,097 )	\$(222,382 )	\$(278,314 )	\$(1,978,610 )
Consolidated Net (loss)	\$(487,918 )	\$(66,462 )	\$(348,568 )	\$(1,898,330 )
Earnings (loss) per common share:				
Basic income (loss) per common share	\$(0.02 )	\$(0.00 )	\$(0.02 )	\$(0.09 )
Diluted income (loss) per common share	\$(0.02 )	\$(0.00 )	\$(0.02 )	\$(0.09 )
Basic weighted average common shares outstanding	20,587,523	20,628,347	20,673,862	20,742,930

Quarter ended:	March 31	June 30	September 30	December 31
2013				
Total revenue	\$ 10,059,360	\$ 18,151,091	\$ 17,213,757	\$ 15,227,457
Total cost of revenue	6,047,605	11,085,366	10,614,380	9,131,544
Gross profit	4,011,755	7,065,725	6,599,377	6,095,913
Gross profit percent	40 %	39 %	38 %	40 %
Selling, general and administrative	3,166,491	6,061,377	5,019,853	5,250,805
Depreciation and amortization	983,266	211,138	1,008,046	1,076,624
Research and development	244,690	198,775	187,866	259,130
Bad debt	(5,000 )	47,470	(10,000 )	179,076
Loss on disposals of fixed assets	-	-	-	9,648
Impairment of intangible	-	-	-	-
Operating income (loss)	\$(377,692 )	\$546,965	\$393,612	\$(679,370 )
Consolidated Net income (loss)	\$(462,092 )	\$437,233	\$737,286	\$(1,655,540 )
Earnings (loss) per common share:				
Basic income (loss) per common share	\$(0.04 )	\$0.02	\$0.04	\$(0.08 )
Diluted income (loss) per common share	\$(0.04 )	\$0.02	\$0.04	\$(0.08 )
Basic weighted average common shares outstanding	10,883,280	18,835,103	20,564,163	20,578,551
Diluted weighted average common shares outstanding	10,883,280	18,843,674	20,574,784	20,578,551