

CUI Global, Inc.
Form 10-Q
May 11, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

Commission File Number 0-29923

CUI Global, Inc.

(Exact name of registrant as specified in its charter)

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

20050 SW 112th Avenue

Tualatin, Oregon 97062

(503) 612-2300.

(Address and Telephone Number of Principal Executive Offices)

Edgar Filing: CUI Global, Inc. - Form 10-Q

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

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

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

YES NO

As of May 8, 2015, there were 20,780,503 shares of the Company's common stock outstanding.

INDEX

	Page
<u>Part I</u>	
Item 1 <u>Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations (unaudited)</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income and Loss (unaudited)</u>	5
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity (unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows (unaudited)</u>	7
<u>Notes to the Condensed Consolidated Financial Statements (unaudited)</u>	9
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Overview</u>	26
<u>Intellectual Property</u>	31
<u>Results of Operations</u>	31
<u>Liquidity and Capital Resources</u>	34
Item 3. <u>Quantitative and Qualitative Disclosure about Market Risk</u>	38
Item 4. <u>Controls and Procedures</u>	39
<u>Part II</u>	
Item 1 <u>Legal Proceedings</u>	40
Item 1A <u>Risk Factors</u>	40
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
Item 6 <u>Exhibits</u>	41
<u>Signatures</u>	42
Exhibits	

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CUI Global, Inc.

Condensed Consolidated Balance Sheets

	March 31, 2015 (unaudited)	December 31, 2014
Assets:		
Current Assets:		
Cash and cash equivalents	\$9,592,563	\$11,704,361
Short term investments held to maturity	5,485,388	11,159,765
Trade accounts receivable, net of allowance of \$234,368 and \$253,871, respectively	9,938,920	9,979,733
Inventories, net of allowance of \$401,234 and \$394,165, respectively	10,004,452	6,840,845
Costs in excess of billings	2,113,206	1,888,849
Prepaid expenses and other	3,484,321	1,552,411
Total current assets	40,618,850	43,125,964
Property and equipment, net	9,624,000	8,141,682
Other Assets:		
Investment - equity method	346,130	332,429
Other intangible assets, net	19,633,745	19,436,261
Deposits and other	7,246	130,579
Goodwill	21,551,622	21,886,958
Total other assets	41,538,743	41,786,227
Total assets	\$91,781,593	\$93,053,873
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts payable	\$5,639,589	\$3,833,749
Mortgage note payable, current portion	81,769	80,746
Leases payable, current	28,133	32,723
Accrued expenses	4,019,844	3,161,258
Billings in excess of costs	3,734,516	3,623,906
Unearned revenue	2,498,485	1,622,579
Total current liabilities	16,002,336	12,354,961
Long term leases payable	63,537	74,071
Derivative liability	659,101	599,698

Edgar Filing: CUI Global, Inc. - Form 10-Q

Long term mortgage note payable, net of current portion of \$81,769 and \$80,746, respectively	3,502,457	3,523,496
Long term notes payable, related party	5,303,683	5,303,683
Contingent consideration, net of current portion of \$40,000 and \$0, respectively	175,500	-
Deferred revenue	155,988	131,565
Deferred tax liabilities, net	4,844,713	5,096,063
Total long term liabilities	14,704,979	14,728,576
Total liabilities	30,707,315	27,083,537
Commitments and contingencies		
Stockholders' Equity:		
Common stock, par value \$0.001; 325,000,000 shares authorized; 20,780,395 shares issued and outstanding at March 31, 2015 and 20,747,740 shares issued and outstanding at December 31, 2014	20,780	20,748
Additional paid-in capital	148,746,041	148,397,980
Accumulated deficit	(86,792,900)	(82,716,744)
Accumulated other comprehensive income (loss)	(899,643)	268,352
Total stockholders' equity	61,074,278	65,970,336
Total liabilities and stockholders' equity	\$91,781,593	\$93,053,873

See accompanying notes to condensed consolidated financial statements

CUI Global, Inc.

Condensed Consolidated Statements of Operations

(unaudited)

	For the three months ended March 31,	
	2015	2014
Revenues:		
Product revenues	\$ 16,843,267	\$ 16,890,121
Revenue from freight	9,853	9,788
Total revenue	16,853,120	16,899,909
Cost of revenues	10,620,075	9,905,687
Gross profit	6,233,045	6,994,222
Operating expenses:		
Selling, general and administrative	8,718,044	6,191,700
Depreciation and amortization	997,655	1,053,013
Research and development	410,143	269,852
Bad debt	82,611	(108,000)
Impairment of intangible asset	2,500	-
Total operating expenses	10,210,953	7,406,565
Loss from operations	(3,977,908)	(412,343)
Other income (expense):		
Other income	37,631	81,869
Other expense	(81,784)	(5,049)
Unrealized (loss) on derivative	(59,403)	(55,580)
Earnings from equity investment	13,701	15,370
Amortization of investment premiums and discounts	(14,220)	(14,982)
Interest expense	(112,923)	(125,491)
Total other income (expense), net	(216,998)	(103,863)
(Loss) before taxes	(4,194,906)	(516,206)
(Benefit) for taxes	(118,750)	(28,288)
Consolidated net (loss)	\$ (4,076,156)	\$ (487,918)
Basic and diluted (loss) per common share	\$ (0.20)	\$ (0.02)
Basic and diluted weighted average common and common equivalent shares outstanding	20,774,000	20,587,523

See accompanying notes to condensed consolidated financial statements

CUI Global, Inc.

Condensed Consolidated Statements of Comprehensive Income and Loss

(unaudited)

	For the three months ended March 31,	
	2015	2014
Consolidated net (loss)	\$ (4,076,156	) \$ (487,918
Other comprehensive income (loss)		
Foreign currency translation adjustment	(1,167,995	) 246,905
Consolidated comprehensive net (loss)	\$ (5,244,151	) \$ (241,013

See accompanying notes to condensed consolidated financial statements

CUI Global, Inc.

Condensed Consolidated Statements of Changes in Stockholders' Equity

(unaudited)

	For the three months ended March 31, 2015					
	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Other Comprehensive Income (Loss)	Stockholders' Equity
Balance, December 31, 2014	20,747,740	\$20,748	\$148,397,980	\$(82,716,744)	\$268,352	\$65,970,336
Options granted for services and compensation	-	-	124,193	-	-	124,193
Common stock issued for services and compensation	32,655	32	223,868	-	-	223,900
Net loss for the period ended March 31, 2015	-	-	-	(4,076,156)	-	(4,076,156)
Other comprehensive loss	-	-	-	-	(1,167,995)	(1,167,995)
Balance, March 31, 2015	20,780,395#	\$20,780	\$148,746,041	\$(86,792,900)	\$(899,643)	\$61,074,278

See accompanying notes to condensed consolidated financial statements

CUI Global, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

	For the three months ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)	\$ (4,076,156	) \$ (487,918
Adjustments to reconcile net (loss) to net cash (used in) operating activities:		
Stock and options issued for compensation, royalties and services	285,494	224,495
Unrealized loss on derivative	59,403	55,580
Non-cash earnings on equity method investment	(13,701	) (15,370
Allowance for bad debt expense and returns allowances	92,611	(108,000
Amortization of investment premiums and discounts	14,220	14,982
Amortization of intangibles	830,254	875,827
Deferred income taxes	(151,397	) (181,057
Impairment of intangible asset	2,500	-
Inventory reserve	13,164	2,485
Loss on disposal of assets	-	4,754
Depreciation	222,268	242,618
(Increase) decrease in assets:		
Trade accounts receivable	(403,535	) (1,535,010
Inventory	(984,987	) 236,996
Costs in excess of billings	(224,357	) 152,182
Prepaid expenses and other current assets	(1,018,379	) (431,235
Deposits and other assets	123,333	(8,354
Increase (decrease) in liabilities:		
Accounts payable	1,865,225	1,075,676
Accrued expenses	748,281	(216,035
Unearned revenue	906,898	412,040
Billings in excess of costs	273,350	(402,209
NET CASH (USED IN) OPERATING ACTIVITIES	(1,435,511	) (87,553
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid upon acquisition, including amount refundable from escrow, and net of contingent consideration (Note 4)	(5,186,402) -
Investments in other intangible assets, net	(66,259	) (1,070
Purchase of short term investments held to maturity	-	(3,880,332
Maturities of short term investments held to maturity	5,660,157	3,000,377
Purchase of property and equipment	(985,516	) (355,353
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(578,020	) (1,236,378
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments to leases payable	(10,548	) (42,118
Payments to notes and loans payable	(20,016	) (19,041

Edgar Filing: CUI Global, Inc. - Form 10-Q

NET CASH (USED IN) FINANCING ACTIVITIES	(30,564	)	(61,159)
EFFECT OF EXCHANGE RATE CHANGE ON CASH	(67,703	)	44,978	
Cash and cash equivalents at beginning of period	11,704,361		16,575,508	
Cash and cash equivalents at end of period	9,592,563		15,235,396	
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (2,111,798	)	\$ (1,340,112)

(continued)

See accompanying notes to condensed consolidated financial statements

7

CUI Global, Inc.

Condensed Consolidated Statements of Cash Flows (continued)

(unaudited)

	For the three months ended March 31,	
	2015	2014
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	\$ 32,647	\$ 104,868
Interest paid	\$ 125,108	\$ 127,048
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for royalties payable pursuant to product agreements, related party	\$ -	\$ 18,248
Contingent consideration recorded in acquisition	\$ 215,500	\$ -
Capital leases	\$ -	\$ 79,839
Common stock issued for prepaid consulting services	\$ 62,599	\$ 115,000

See accompanying notes to condensed consolidated financial statements

CUI Global, Inc.

Notes to the Condensed Consolidated Financial Statements

(unaudited)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the United States Securities and Exchange Commission for interim financial information which includes condensed consolidated financial statements. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position and results of operations and should be read in conjunction with the Annual Report, Form 10-K for the year ended December 31, 2014.

It is management's opinion that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year ending December 31, 2015.

CUI Global, Inc. (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, Inc., CUI-Canada, Inc., CUI Japan, Orbital Gas Systems Limited and Orbital Gas Systems, North America), CUI Global has built a diversified portfolio of industry leading technologies that touch many markets.

Since its inception in 1989, CUI Inc. (CUI) has been delivering quality products, extensive application solutions and superior personal service. CUI's solid customer commitment and honest corporate message are a hallmark in the industry.

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

CUI, Inc. and CUI Japan offer electronic components including connectors, speakers, buzzers and control solutions including encoders and sensors; power solutions and test and measurement devices. These offerings provide a

technology architecture that addresses power and related accessories as well as test and measurement capabilities to industries ranging from consumer electronics to defense and alternative energy.

On March 5, 2015, we closed on an Asset Purchase Agreement to acquire certain assets and assumed certain liabilities of Tectrol, Inc., a Toronto, Canada corporation. As a part of this acquisition strategy, CUI Global, Inc. formed a wholly owned Canadian corporate subsidiary, CUI-Canada, Inc. (CUI-Canada), to receive these acquired assets and liabilities. CUI-Canada, Inc. operations include the design and manufacture assembly of electronic power conversion devices such as AC/DC power supplies, DC/DC power supplies, linear power supplies and uninterruptable power supplies. Sales of products produced by CUI-Canada will be marketed and sold through existing CUI, Inc. sales channels as well as to existing Tectrol customers.

Orbital Gas Systems Limited (Orbital), is 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. In January 2015, CUI Global formed and opened Orbital Gas Systems, North America, a wholly owned subsidiary, to represent the gas segment in the North American market.

CUI Properties, LLC owns the CUI Global headquarters facility located in Tualatin, Oregon.

During the quarter ended March 31, 2015, total revenues at CUI Global consisted of 63% from the power and electro-mechanical segment and 37% from the gas segment.

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, valuation of non-cash capital stock issuances and the valuation allowance on deferred tax assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Principles of Consolidation

The condensed consolidated financial statements for 2015 include the accounts of CUI Global, Inc. and its wholly owned subsidiaries CUI, Inc., CUI-Canada, Inc., CUI Japan, CUI Properties, LLC, Orbital Gas Systems, Ltd. and Orbital Gas Systems, North America, hereafter referred to as the “Company”. The condensed consolidated financial statements for 2014 include the accounts of CUI Global, Inc. and its wholly owned subsidiaries CUI, Inc., CUI Japan, CUI Properties, LLC, and Orbital Gas Systems, Ltd. Significant intercompany accounts and transactions have been eliminated in consolidation.

Fair Value of Financial Instruments

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

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

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

Level