

CUI Global, Inc.  
Form 10-K  
March 18, 2019

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-29923

---

**CUI Global, Inc.**

(Exact name of registrant as specified in its charter)

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

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 112th Avenue

Tualatin, Oregon 97062

(503) 612-2300

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

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



Table of Contents

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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	Smaller reporting company
Emerging growth company			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018), was approximately \$73,354,786. Shares of common stock beneficially held by each executive officer and director as well as 10% holders as of June 30, 2018 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 purpose.

As of March 18, 2019, the registrant had 28,581,953 shares of common stock outstanding and no shares of Preferred Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

2

---

Table of Contents

Part I	
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	11
Item 1B. <u>Unresolved Staff Comments</u>	23
Item 2. <u>Properties</u>	24
Item 3. <u>Legal Proceedings</u>	24
Item 4. <u>Mine Safety Disclosure</u>	24
Part II	
Item 5. <u>Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	24
<u>Market Value</u>	25
<u>Description of Securities</u>	24
Item 6. <u>Selected Financial Data</u>	29
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>Critical Accounting Policies</u>	31
<u>Liquidity and Capital Resources</u>	38
<u>Results of Operations</u>	43
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	49
Item 8. <u>Financial Statements and Supplementary Data</u>	51
Item 9. <u>Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u>	97
Item 9A. <u>Controls and Procedures</u>	98
Item 9B. <u>Other Information</u>	100
Part III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	100
<u>Our Corporate Governance Practices</u>	103
<u>Audit Committee</u>	105
<u>Audit Committee Report</u>	105
<u>Nominating Committee</u>	106
Item 11. <u>Executive Compensation</u>	109
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	120
Item 13. <u>Certain Relationships, Related Transactions and Director Independence</u>	123
Item 14. <u>Principal Accounting Fees and Services</u>	123
Part IV	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	125
<u>Exhibits</u>	125
Item 16. <u>Form 10-K Summary</u>	126
<u>Signatures</u>	126
Certifications	

Table of Contents

**PART I**

**Item 1. Business**

**Corporate Overview and Our Products**

CUI Global, Inc. and Subsidiaries are collectively referred to as “CUI Global” or “The Company.” CUI Global is a Colorado corporation organized on April 21, 1998 with its principal place of business located at 20050 SW 112th Avenue, Tualatin, Oregon 97062, phone (503) 612-2300. The Company is a platform company dedicated to maximizing shareholder value through the acquisition, development and commercialization of new, innovative technologies and businesses. The Company's operations fall into two reportable segments: Power and Electromechanical segment and Energy segment. In addition, the Company's corporate overhead activities are included in an “Other” category. CUI Global has subsidiaries in 4 countries, including the United States, United Kingdom, Canada and Japan. Through its subsidiaries, CUI Global has built a diversified portfolio of industry leading technologies that touch many markets.

**Power and Electromechanical Segment**

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

CUI Inc. is based in Tualatin, Oregon, CUI-Canada, is based in Toronto, Canada and CUI Japan is based in Tokyo, Japan (collectively referred to as “CUI”). These three subsidiaries are providers of power supply solutions and electromechanical 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.

The Power and Electromechanical segment aggregates its product offerings into two categories: **power supply solutions** - including external and embedded ac-dc power supplies, dc-dc converters and offering a technology architecture that addresses power and related accessories; and **components** - including connectors, speakers, buzzers, and industrial control solutions including encoders and sensors. 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 Solutions**

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

### **Advanced Power**

With the rapid rise in cloud computing and the “Internet of Things,” CUI is well positioned with our advanced power portfolio to address these quickly-growing markets. System complexity, energy efficiency regulations and the need for more processing power in smaller spaces has moved digital power to a mandatory technology in data communications, server and storage applications. The acquisition of certain assets and certain liabilities of Tectrol, Inc. (now CUI-Canada) in 2015 allows us to address the front-end power requirements of these same systems, providing a complete power solution for our customers. In an environment where OEMs are reducing their approved vendor list, the capability to deliver a full system solution is becoming critical.

### **Virtual Power Systems and ICE®**

CUI Inc. entered into a hardware agreement with Virtual Power Systems (VPS) to be the exclusive third-party design and development provider of ICE (Intelligent Control of Energy) products enabled by the VPS patented software system. The ICE system is a revolutionary Software Defined Power® solution that combines CUI Inc.’s hardware and Virtual Power Systems’ software into a platform that increases data centers’ power infrastructure utilization. CUI Inc. has an exclusive five-year agreement with VPS, which will automatically renew for an additional five years unless notice is given by either party within six months of the end of the term.

### **Components**

#### **AMT® Encoder**

CUI Inc. 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 compared 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 SKUs and economies of scale in purchasing. The AMT amounts to almost 2,000 encoders in one package. The AMT has been awarded several design wins from Motion Control OEM’s, while producing a wide range of products including robotics. This portfolio of products continues to grow and become more diverse in its ability to meet the needs of the customer base.



Table of Contents

**Anticipated Growth Strategy for Our Power and Electromechanical Segment**

We hope to grow our power and electromechanical product line through a planned strategy to continually 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 international distribution channels; and
- 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 distributors with partnership marketing.

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 market during our anticipated growth. We intend to expand according to our existing model. This expansion may require additional manufacturer representative coverage and outside sales people in strategic areas.

**Energy Segment**

**Orbital Gas Systems, Ltd. and Orbital Gas Systems, North America, Inc. - Subsidiaries**

Orbital Gas Systems, Ltd. (Orbital-UK) is based in Stone, Staffordshire in the United Kingdom and Orbital Gas Systems, North America, Inc. (Orbital North America), is based in Houston, Texas. Orbital-UK has operated successfully in the natural gas industry for over 30 years and is a leading provider of natural gas infrastructure and high-tech solutions to United Kingdom transmission companies, including: Scotia Gas Networks (SGN); Wales & West; Cadent and National Grid. Orbital North America leverages the experience of Orbital-UK in an effort to reach the North American market with the innovative solutions that Orbital-UK customers have benefited from for years.

The Energy segment subsidiaries, collectively referred to as Orbital Gas Systems (Orbital), have developed a 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. Its proprietary VE<sup>®</sup> Technology enhances the capability and speed of our GasPT<sup>®</sup> Technology. VE Technology provides a superior method of penetrating the gas flow without the associated vortex vibration, thereby making it a “stand-alone” product for thermal sensing (thermowells) and trace-element sampling.

We deal with several independent licensors for whose intellectual property we compete with other manufacturers. Rights to such intellectual property, when acquired by us, are usually exclusive and the agreements require us to pay the licensor a royalty on our net sales of the item. These license agreements, in some cases, also provide for advance royalties and minimum guarantees to maintain technical rights and exclusivity.

GasPT®

Through an exclusive licensing contract with DNV GL (formerly: GL Industrial Services UK, Ltd.) (formerly: British-based Advantica, Ltd.), CUI Global owns exclusive rights to manufacture, sell and distribute a gas quality inferential measurement device designed by DNV GL on a worldwide basis, now marketed as the GasPT. The Company has minimum commitments, including royalty payments, under this licensing contract.

The GasPT, is a low-cost solution for measuring natural gas quality. It's connected to a natural gas system to provide a fast, accurate, close to real time measurement of the physical properties of the gas, such as thermal conductivity, speed of sound and carbon dioxide content. From these measurements it infers an effective gas mixture comprising five components: methane, ethane, 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 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, ENGIE (the French energy giant), and NMI & The International Organization of Legal Metrology (“OIML”). There is no equivalent product competition. There are instruments like gas chromatographs (“GC”) that technically can be considered competition, but they are slow, complicated to use and as much as five times the installed price of the GasPT.

## Table of Contents

For example, in the case of one of Orbital's customers, an Italian gas transmission company, there are ~ 7,000 customer access points, servicing 7,500 customers. Those would include city gates, large industrial users, power generation plants and others. Those customer access ports would be applicable for the GasPT Technology.

In addition, there are more than 50,000 gas-fired turbines in operation worldwide. Each turbine is subject to variances in natural gas quality. Depending on the quality of the gas, by using our GasPT Technology, those very expensive machines can be tuned to run more efficiently and therefore longer with significantly cleaner emissions. Because of the delay in information from the GC's, such tuning cannot be effectively accomplished. This greater efficiency has led National Grid in the UK to change its entire turbine control strategy, canceling orders for several GC's and, in 2013, replacing those GC's with GasPT devices specifically designed for natural gas-fired turbine control.

Orbital has successfully introduced the combined GasPT analyzer and VE sample system (GasPTi) 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 successfully completed second phase testing with GE-Energy in October 2013. The device is in final phase testing at GE's Oil & Gas Learning Center in Nuovo Pignone, Florence, Italy.

On September 3, 2015, our Italian gas transmission customer issued a public tender for the installation of at least 3,300 metering devices to change the way the customer monitors its facilities and assets. After a several months bidding process, Orbital and its partner, SOCRATE were awarded the initial purchase order (400 units) under the tender. Those 400 units were delivered on-time and in-budget during 2016. A regulatory issue unrelated to the technology has delayed the next phase of the project through 2018. While the Company expects the project to resume in 2019, there can be no assurance of this. The customer is currently working with its regulatory body to implement a program that would improve its ability to more rapidly deploy the new metering solutions. The Company has confirmed that the GasPT device is still the only qualified technology for this project.

## Bio-Methane to Grid

In addition, Orbital has been very involved in developing a method by which bio-methane gas can be injected into the existing natural gas infrastructure without enhancement, thus remaining environmentally-friendly while maintaining a carbon neutral footprint.

Bio-methane gas (produced wherever organic material is decaying) can be, and is a significant source of environmentally-friendly, carbon neutral energy in the U.K. Italy produces as much as 8 billion cubic meters of bio-methane gas per year and could dramatically reduce its carbon footprint by capturing that bio-methane gas in the form of energy. The specific advantages of bio-methane as a source of energy is that it uses already-existing pipeline infrastructure to quickly and efficiently deliver energy to the end-user, who, in most cases, is already connected to the grid.

The problem in the U.K. and elsewhere is maintaining accurate billing after the bio-methane gas is injected into the grid. In brief, due to the method by which billing is currently done in the U.K. (and throughout much of Western Europe), bio-methane gas must be enhanced by injecting propane or some other complex carbon material to meet critical calorific value (“CV”) levels before being injected into the grid to allow the bio-methane gas to fit the CV envelope of the regional billing model.

Such enhancement means that the very simple, environmentally-friendly bio-methane gas is transformed into a complex carbon gas, which increases its carbon footprint. In addition, the energy used by fleets of vehicles transporting propane to the propane injectors at each bio-methane-to-grid facility further increases the carbon footprint and resulting pollution to the environment - all-in-all, a very environmentally-unfriendly, highly polluting method of delivering what would otherwise be a “green” alternative energy source.

Table of Contents

DNV GL, the well-respected Norwegian consulting firm, has opined that the need to enhance bio-methane gas actually makes such gas less environmentally-friendly than standard natural gas sources.

The question, then, is how to avoid having to enhance bio-methane gas before injecting it into the grid. The answer, simply, is to measure the quality of the gas for billing downstream from the bio-methane injection sites, so the CV does not affect the billing, which is done in a much closer proximity to the end-user; thereby, becoming much more accurate and reliable. A simplified animation of the analysis/issues can be found at a link from our [www.CUIGlobal.com](http://www.CUIGlobal.com) website ([Future Billing Methodology Animation](#)).

To develop such a billing methodology, DNV GL (in conjunction with Orbital) has produced a “proof-of-concept” proposal. The first portion of that proposal, an industry survey, was memorialized in the Future Billing Methodology (“FBM”) Project Consultation Report, which can also be found at the DNV GL website, which is linked to at our [www.CUIGlobal.com](http://www.CUIGlobal.com) website ([FBM Project Consultation](#)).

That consultation resulted in an approval by Ofgem, the U.K. regulatory authority, to move forward with field trials to “decarbonize” the U.K. energy network. A copy of the Stage Gate Report memorializing that Ofgem approval can be found on the DNV GL website, for which a link can be found on our [www.CUIGlobal.com](http://www.CUIGlobal.com) website ([FBM Stage Gate Report](#)).

A comprehensive description of the field trials, including the use of Orbital’s proprietary GasPT technology to provide for quick, efficient, accurate, and cost-effective data monitoring, was published on January 11, 2018. A copy of that report can be found at the DNV GL website, which is linked to at [www.CUIGlobal.com](http://www.CUIGlobal.com) ([FBM Project Progress Report - Phase 1](#)).

On April 3, 2018, the successful delivery reward criteria report covering the second phase of industry engagement for the project was published. The report provided initial thoughts from key delivery agencies on the potential impacts of implementing a future Calorific Value zone based billing framework. This report can be found at the DNV GL website, which is linked to at [www.CUIGlobal.com](http://www.CUIGlobal.com) ([Successful Delivery Reward Criteria Report](#)).

Finally, on December 13, 2018, the second annual progress report was published. The smart metering laboratory trials have been delayed 12 months and are now projected to be completed by December 31, 2019 and the final future billing methodology recommendation has also been delayed 12 months and is now expected to be completed by March 31, 2020. A copy of that report can be found at the DNV GL website, which is linked to at [www.CUIGlobal.com](http://www.CUIGlobal.com) ([FBM Project Progress Report 2](#)).

Orbital has produced an initial, formal bid for the UK project of up to £490,000,000 (\$624,000,000 USD at December 31, 2018) over 15 to 20 years. DNV GL and Ofgem, the UK regulatory agency, have both confirmed that the formal bid falls “within budget guidelines.”

VE Technology®

Orbital holds exclusive worldwide rights to manufacture, sell, design, and otherwise market the VE-Probe, VE sample system, VE thermowell and VE *Technology*® from its United Kingdom-based inventor, EnDet Ltd. The agreement, which includes certain royalty commitments, gives Orbital exclusive and sole control of all technology related to its revolutionary GasPT natural gas metering systems. The GasPT technology provides fast and accurate measurement of the physical properties of the natural gas mixture. By combining the GasPT technology with the equally unique VE *Technology*, which can 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 can accurately provide nearly real-time data to the natural gas operator in a total cycle-time of less than five seconds. It provides this analysis at a fraction 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.

VE *Technology* gives us the ability to control and produce the entire bill of materials for our GasPTi systems, thus allowing us to capture a larger margin as we provide this unique metering solution to the natural gas industry.

## Table of Contents

In addition, the *VE Technology*, combined with applicable detectors, allows us to produce trace-element detectors for such components as mercury (Hg), moisture (H<sub>2</sub>O), and hydrogen sulfide (H<sub>2</sub>S) that are particularly effective in quickly and accurately identifying these elements. That ability has allowed us to sell a significant number of our probes into the Gorgon LNG Project in Australia, a large Northeastern LNG terminal in the US, and chemical plants throughout North America.

Some features of the *VE Technology* that set it apart from its competition are the VE fixed or retractable sampling probe with its patented helical strakes to eliminate vortex shedding and the need for wake calculations and its patented aerodynamic probe tip to actively reject particulate, minimizing the need for filtration and allowing a small bore to optimize sample transit time. In addition, the VE sample system provides a simple, optimized system to deliver a representative sample to any analyzer with no dead volume, threaded connections or components in the sample pathway. Simple concepts and decades of detailed engineering allows quick and simple customization to suit any application.

### **Anticipated Growth Strategy for Our Energy Segment**

We will continue to market our GasPT inferential natural gas monitoring device, VE technology products, and other product and integrated solutions. Our strategy includes:

For GasPT, our strategy has been to identify the large gas utility companies who would most likely provide opportunities for batch sales rather than single unit sales. This approach has focused strongly on the United Kingdom, Europe and North America. The Company will continue its efforts in those areas.

In 2018, Orbital signed a distribution agreement with internationally recognized German equipment supplier, SAMSON AG. That agreement allows the technology to be introduced in various territories wherein Orbital has no access, including, but not limited to China, Russia, various CIS countries, and throughout Asia. The agreement calls for certain minimum sales targets and will significantly broaden the customer base for GasPT, VE Technology, and the GasPTi with SAMSON utilizing their 4,000-person sales network to promote and sell GasPT in its many iterations into the large industrial category, including pharmaceuticals, glass and steel manufacturers, breweries, etc. Beyond this, our strategy is based on identification of the main geographic 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.

Orbital continues to develop new integrated solutions, promote existing technologies, and increase customer relationships.

The Company will continue to identify opportunities to utilize the unique *VE Technology* beyond the existing product offering, with a focus on gas sampling, thermowells, and trace element sampling applications.

We signed an exclusive distribution agreement for our GasPT technology with an Italian company, SOCRATE s.p.a., for sales, marketing, distribution and service of our GasPT gas metering device for Italy and North Africa, including Libya and Tunisia.

During 2016, Orbital signed a Technology and Patent License Agreement with Daily Thermetrics, a globally-respected design and manufacturing company providing process industries with precise temperature measurement instrumentation. The Agreement calls for the manufacture and sale of the patented natural gas sampling *VE Technology* in North America. This relationship is expected to allow Orbital to more efficiently penetrate the North American energy market.

Orbital has begun marketing its BioMethane solution globally and expects to see sales of the units into North America in late 2019 or early 2020. Orbital's engineering teams from the U.K. and the U.S. have worked together to develop a productized version of the BioMethane-to-grid units sold into the U.K. over the past few years. Orbital branded marketing material has been created and multiple sales visits, lunch and learns and trade shows have been scheduled for attendance in 2019. We expect this to be a new growth area for the North American office.

The Company will continue to seek new opportunities to design, manufacture, and produce innovative solutions within the Energy segment to increase customer reach, product innovation, and growth. In such an effort, during 2016, Orbital was awarded a \$3.0 million project to design, manufacture, and produce innovative solutions for gas quality and volumetric metering within SGN's (formerly: Scotia Gas Network) Great Britain gas distribution network. Orbital-UK was awarded the contract by DNV GL, a leader within the oil and gas industry. The project is part of DNV GL's Future Billing Methodology ("FBM") Project, which, when implemented in late-2019, could call for the deployment of literally tens-of-thousands of the Company's proprietary GasPT analyzers.



## Table of Contents

The objective of the SGN project is to optimize gas network design and network operation assumptions. This project will use a pilot trial methodology with the procurement and installation of innovative sensor technologies across pressure tiers in a gas distribution system. These technologies, combined with novel power and communications and a cloud-based data system, will be used by DNV GL to develop a prototype real-time energy demand model, a world first. Innovative technology, such as Orbital's proprietary GasPT Technology, form the backbone of the solution coupled with custom metering designs to be used to meet the project criteria. The project produces a GasPT application which would allow the millions of residential energy consumers to have immediate, real-time access to the cost of their energy usage.

We continue negotiations with ENGIE, the French transmission company, for deployment of the devices to both GRTgaz (ENGIE's pipeline subsidiary) and Elengy (ENGIE's liquid natural gas subsidiary). ENGIE has agreed to represent the technology to other Western European, North American, and Asian entities in a partnership with Orbital.

In conclusion, Orbital utilizes internationally recognized distribution partners in various global markets to reach customers throughout the natural gas industry. These distribution partners are utilized to supplement and enhance our existing sales and engineering teams in the UK and USA.

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

CUI Inc.; CUI-Canada; Orbital Gas Systems, Ltd. and Orbital Gas Systems, North America Inc. are certified to the ISO 9001:2008 Quality Management Systems standards and guidelines. These entities are registered as conforming to the requirements of standard: ISO 9001:2008. The CUI Quality Management Systems are applicable to design, development and distribution of electromechanical components for OEM manufacturing. Orbital's Quality Management Systems are designed to safeguard product quality, health and safety and the environment through the design, build, installation commissioning and after sales processes. ISO 9001 is accepted worldwide as the inclusive international standard that defines quality.

Orbital-UK's Environmental Management System has also been verified by an independent third party (NQA) as complying with the requirements of BS EN ISO 14001:2008. This assists Orbital in meeting applicable environmental legislation and to control the environmental aspects of our activities as a company.

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 to our customers.

### **Acquisition Strategy**

We are constantly alert to potential acquisition targets, both in innovative technology and potential strategic partners. In that regard, we are repeatedly approached by inventors and others, 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 GasPT, VE and ICE. Much like our past acquisitions, there are many small, well-run electronics and gas industry 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 \$2.8 million, \$2.5 million and \$2.0 million for the years ended December 31, 2018, 2017 and 2016, 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 power technologies including advanced power products, AMT Capacitive Encoders and towards further development of the GasPT and VE technologies. The Company expects that research and development expenses will continue during 2019 as the Company continues to expand its product offering and technologies due to market acceptance and customer integration.

## Table of Contents

### **Employees**

As of December 31, 2018, CUI Global, Inc., together with its consolidated subsidiaries, had 357 employees. As of December 31, 2018, 73 of its employees in Canada are represented by a labor union. This is an increase in total employees from the 333 total employees reported as of December 31, 2017 and a slight decrease in unionized employees from the 75 reported as of December 31, 2017. The Company considers its relations with its employees to be good. The Company may add additional staff as needed to handle all phases of its business.

### **Intellectual Property License Evolution**

#### 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® 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 advanced power supply solutions.

#### GasPT® technology

Through an exclusive licensing contract with DNV GL (formerly: GL Industrial Services UK, Ltd.) (formerly British-based Advantica, Ltd.) ("GL") and signed on or about January 4, 2010, CUI Global acquired exclusive rights to manufacture, sell and distribute a Gas Quality Inferential Measurement Device (GasPT), designed by GL, on a worldwide basis. According to the agreement, a percentage of sales is remitted back to DNV GL in the form of a royalty payment.

#### VE Technology

On July 30, 2013, our Orbital subsidiary acquired exclusive worldwide rights to manufacture, sell, design, and otherwise market the VE Technology from its United Kingdom-based inventor, EnDet Ltd. The agreement, which includes ongoing royalty requirements, gives Orbital exclusive and sole control of all VE-based technology.

#### Virtual Power Systems and ICE®

In 2015, CUI entered into a hardware agreement with Virtual Power Systems (VPS) to be the exclusive third-party development and manufacturing provider of ICE (Intelligent Control of Energy) products enabled by the VPS patented software system. The ICE system is a revolutionary Software Defined Power® solution that combines CUI's hardware and Virtual Power Systems' software into a platform that increases data centers' power infrastructure utilization. On June 25, 2018, CUI renewed and extended the agreement to be an exclusive five-year agreement with VPS that includes automatic five-year extensions unless either party makes notification within six months of the end of the agreement.

### **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, which maintains the international register and, in several instances, direct trademark registration in foreign countries, we and our subsidiaries actively maintain up to date the following trademarks: CUI INC, AMT, Novum, CUI Global, GasPT, IRIS, AMP, Architects of Modern Power, AMP Group, Total Power supply solutions 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.

## Table of Contents

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 power and electromechanical parts distribution business that is focused on efficiency of delivery, quality, technical support 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 power and electromechanical parts distribution business is diverse and broad. We have very strong retail distribution partners that maximize 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 from our competitors. This product line ranges from a \$0.02 connector to a several thousand-dollar power solution – all different products for different customers. Additionally, we utilize third-party external sales representative organizations to penetrate new customers otherwise not readily available to the company.

CUI is well recognized in the power supply market and has differentiated itself through technology with a foundation of legacy and product quality. As of December 31, 2018, our Power and Electromechanical segment accounted for approximately 79% of our revenues and our Energy segment accounted for approximately 21% of our revenues. We continue to add new products and technologies that will provide us the opportunity to compete outside of price and more on innovative technology and strategic partnerships.

From our portfolio of full-featured power supplies, we believe that we are competitive with market leaders in our space and that the market is ready for new technologies and new ideas. With the shift toward digitally-based power supplies accelerating, our strategy is to develop a true software-defined power ecosystem where the sum of the components is greater than its parts.

Similarly, the natural gas inferential metering device, the GasPT along with our VE Technology, 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 five components: methane, ethane, 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 ARERA in Italy. There is no equivalent product competition. There are instruments like gas

chromatographs that are technically competition, but they are slower and more complicated to use and as much as five times the installed price of the GasPT system.

### **Philanthropic Philosophy**

In an industry first, CUI has chosen that, in addition to sales commission, many of our sales representative firms will also receive a charity commission to be donated to charities of their choice. One of CUI's 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 on Form 10-K actually occur, the Company's business, financial condition or results of operations could be materially adversely affected.

Table of Contents

**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 2018, we had a net loss of \$17.3 million and our accumulated deficit as of December 31, 2018 was \$124.0 million. 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, we may have to delay, reduce the scope of, or eliminate some or all of our 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, 2018, we had a net loss of \$17.3 million. 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 historical business was a commoditized power and electromechanical parts distribution business. In recent years, we have focused our business on the acquisition, development and commercialization of new and innovative 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 may 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 global 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;
- natural disasters, public health issues, and other catastrophic events;
- 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.



Table of Contents

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 2018, 2017 and 2016 were power and electromechanical products, natural gas infrastructure and high-tech solutions.

During 2018, over 36% of revenues were derived from two customers, Digi-Key Electronics at 24% and Future Electronics at 12%. During 2017, over 36% of revenues were derived from two customers, Digi-Key Electronics at 26% and Future Electronics at 10%. During 2016, over 19% of revenues were derived from one customer, Digi-Key Electronics.

At December 31, 2018, of the gross trade accounts receivable totaling approximately \$14.6 million, there were no individual customers greater than 10% of total trade accounts receivable. At December 31, 2017, of the gross trade accounts receivable totaling approximately \$11.0 million, approximately 21% was due from two customers: GL Industrial Services UK Ltd. at 11% and Digi-Key Electronics at 10%.

During 2018, the Company did not have any supplier concentrations that provided over 10% of our inventory purchases. During 2017, the Company had one supplier concentration of 12% related to inventory product received.

With the United Kingdom operations of Orbital, the Company also has foreign revenue and trade accounts receivable concentrations in the United Kingdom of 16% and 29%, respectively as of and for the year ended December 31, 2018 and 17% and 28%, respectively as of and for the year ended December 31, 2017. Additionally, at December 31, 2017 the Company had accounts receivable concentrations of 11% in Canada.

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. For additional information on our concentrations, see Note 15 – Concentrations.

*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 power and electromechanical 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, including for Energy segment technologies and Power and Electromechanical segment products, 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, which 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.

Table of Contents

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

We are a relatively small company with limited capitalization in comparison to many of our international competitors in each of our business segments. Because of our size and capitalization, we believe that we have not yet established sufficient market awareness in our segments that is essential to our continued growth and success in all of our markets. We face formidable competition in every aspect of our 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 power and electromechanical components and our inferential natural gas monitoring device, the GasPT, 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 in a competitive environment.

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

We continue our process of integrating 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-UK'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-UK'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.

Table of Contents

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, 2018, CUI Global, Inc., together with its consolidated subsidiaries, had 357 full-time employees. We expect to experience growth in the number of our employees and the scope of our operations as we follow our growth strategy. 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 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, among other things:

- 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.*

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 have made significant investments in using more professional services and expanding our operations outside the United States. We may 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 such increased investments could adversely affect operating income in the short term while providing long-term benefit.

Table of Contents

*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 our various markets. 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, GasPT, Orbital Gas Systems, ICE, and AMT 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.

*Two of our subsidiaries and certain suppliers are 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 sales, development and manufacturing resources in Japan and in Houston, Texas. The risk of earthquakes, hurricanes, typhoons and other natural disasters in these geographic areas is significant due to the proximity of major earthquake fault lines in Japan and the proximity of both of these subsidiaries to the coast. Despite precautions taken by us and our third-party providers, a natural disaster or other unanticipated problems, at our location in Japan, Texas or at third-party providers could cause interruptions in the products that we provide. Any disruption resulting from these events could cause significant delays in shipments of our products until we are able to shift our manufacturing, assembly or testing from the affected contractor(s) to another third-party vendor. 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 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.



## Table of Contents

Any defects or errors in our 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;
- an increase in collection cycles for accounts receivable, which could result in an increase in our provision for doubtful accounts and the risk of costly 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 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, 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.

*Our insurance policies may not cover all operating risks and a casualty loss beyond the limits of our coverage could adversely impact our business.*

Our business is subject to operating hazards and risks relating to handling, storing, transporting and use of the products we sell. We maintain insurance policies in amounts and with coverage and deductibles that we believe are reasonable and prudent. Nevertheless, our insurance coverage may not be adequate to protect us from all liabilities and expenses that may arise from claims for personal injury or death or property damage arising in the ordinary course of business, and our current levels of insurance may not be maintained or available in the future at economical prices. If a significant liability claim is brought against us that is not adequately covered by insurance, we may have to pay the claim with our own funds, which could have a material adverse effect on our business, consolidated financial condition, results of operations, or cash flows.

## Table of Contents

### *Expanding and evolving data privacy laws and regulations could impact our business and expose us to increased liability.*

The General Data Protection Regulation ("GDPR") became effective in the European Union in May 2018, imposes significant new requirements on how we collect, process and transfer personal data, as well as significant financial penalties for non-compliance. Global privacy legislation, enforcement, and policy activity in this area are rapidly expanding and creating a complex regulatory compliance environment. Costs to comply with and implement these privacy-related and data protection measures could be significant. In addition, even our inadvertent failure to comply with federal, state, or international privacy-related or data protection laws and regulations could result in proceedings against us by governmental entities or others. Any inability to adequately address privacy concerns, even if unfounded, or to comply with the more complex privacy or data protection laws, regulations and privacy standards, could lead to significant financial penalties, which may result in a material and adverse effect on our results of operations.

### *We are subject to taxation in multiple jurisdictions. As a result, any adverse development in the tax laws of any of these jurisdictions or any disagreement with our tax positions could have a material adverse effect on our business, consolidated financial condition or results of operations. In addition, our annual effective income tax rate can change materially as a result of changes in our mix of U.S. and foreign earnings and other factors, including changes in tax laws and changes made by regulatory authorities.*

We are subject to taxation in, and to the tax laws and regulations of, multiple jurisdictions as a result of the global scope of our operations and our corporate and financing structure. We are also subject to transfer pricing laws with respect to our intercompany transactions. Adverse developments in these laws or regulations, or any change in position regarding the application, administration or interpretation thereof, in any applicable jurisdiction, could have a material adverse effect on our business, consolidated financial condition or results of our operations. In addition, the tax authorities in any applicable jurisdiction, including the United States, may disagree with the positions we have taken or intend to take regarding the tax treatment or characterization of any of our transactions. If any applicable tax authorities, including U.S. tax authorities, were to successfully challenge the tax treatment or characterization of any of our transactions, it could have a material adverse effect on our business, consolidated financial condition or consolidated results of our operations.

Our overall effective income tax rate is equal to our total tax expense as a percentage of total earnings before tax. However, income tax expense and benefits are not recognized on a global basis but rather on a jurisdictional or legal entity basis. Losses in one jurisdiction may not be used to offset profits in other jurisdictions and may cause an increase in our tax rate. Changes in statutory tax rates and laws, as well as ongoing audits by domestic and international authorities, could affect the amount of income taxes and other taxes paid by us. Also, changes in the mix of earnings (or losses) between jurisdictions and assumptions used in the calculation of income taxes, among other factors, could have a significant effect on our overall effective income tax rate.

## **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, Digital Point of Load technology, ICE technology, GasPT 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, results of operations, and cash flows.

Table of Contents

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.

In the future we may 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.

## Table of Contents

*Cyber risk and the failure to maintain the integrity of our operational or security systems or infrastructure, or those of third parties with which we do business, could have a material adverse effect on our business, consolidated financial condition and results of operations.*

We are subject to an increasing number of various types of information technology vulnerabilities, threats and targeted computer crimes which pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data. Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber-attacks or security breaches of our networks or systems, could result in the loss of customers and business opportunities, legal liability, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensatory costs, and additional compliance costs, any of which could materially adversely affect our business, financial condition and results of operations. While we attempt to mitigate these risks, our systems, networks, products, solutions and services remain potentially vulnerable to advanced and persistent threats. Despite our efforts, our facilities and systems and those of our customers and third-party service providers may be vulnerable to security breaches, theft, misplaced or lost data, programming and/or human errors that could lead to the compromising of sensitive, confidential or personal data or information, improper use of our systems, software solutions or networks, unauthorized access, use, disclosure, modification or destruction of information, defective products, production downtimes and operational disruptions, which in turn could adversely affect our consolidated financial condition and results of operations.

## **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 gas technologies or power and electromechanical technologies;
- changes in the economic performance and/or market valuations of other power and electromechanical, electronic component, industrial controls, gas metering, monitoring and sampling related companies;
- conditions or trends relating to the marketing, sale or distribution of power and 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 power and 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.



Table of Contents

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 the trading volume of our stock is not large, there can be 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 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 of our stock.

*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.*

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, 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.

## Table of Contents

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

CUI Global, Inc. is a Colorado corporation. As permitted by Colorado law, the Company's Articles of Incorporation limits the liability of directors to CUI Global, Inc. 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.

CUI Global 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 Acquisitions**

*A significant portion of our total assets for acquisitions consists of goodwill, which is subject to 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.*

As of December 31, 2018, we have goodwill totaling approximately \$13.1 million associated with the Company's acquisitions. We are 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. See Note 2 - Summary of

Significant Accounting Policies - Indefinite-Lived Intangibles and Goodwill Assets for more information on the Company's goodwill impairment testing and the \$4.3 million impairment taken against goodwill and other intangible assets in 2018 and the \$3.2 million impairment taken against goodwill and other intangibles in 2017.

*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 foreign 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 currently undertake any hedges to protect against adverse foreign currency exposure.

Table of Contents

*The United Kingdom's proposed withdrawal from the European Union could have an adverse effect on our business and financial results.*

On June 23, 2016, a referendum was held in the United Kingdom to determine whether the country should remain a member of the European Union ("EU"), with voters approving to withdraw from the EU (commonly referred to as Brexit). The UK is currently scheduled to depart on March 29, 2019. Following the referendum, the UK government began discussions with the EU on the terms and conditions of the withdrawal from the EU and on terms of a transition period to December 31, 2020 proposed by the EU but not yet agreed upon. Current uncertainty over the final outcome of the negotiations between the UK and EU, could have an adverse effect on our business and financial results. The long-term effects of Brexit will depend on the terms negotiated between the UK and the EU, which may take years to complete. Our Orbital-UK operations could be impacted by the global economic uncertainty caused by Brexit.

The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. Volatility in exchange rates is expected to continue in the short term and a strong U.S. dollar relative to the British pound and other currencies may adversely affect our results of operations. During periods of a strengthening dollar, the local currency results of our international operations may translate into fewer U.S. dollars. Uncertainty over Brexit and currency fluctuations could also impact our customers, who may curtail or postpone near-term capital investments or take other actions that adversely affect the growth of our volume and revenue streams from these customers.

In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate. Our UK operations may incur additional costs and expenses as we adapt to potentially divergent regulatory frameworks from the rest of the EU.

The UK may need to adopt specific legislation and apply for regulatory authorization and permission in separate EU member states. This may impact our overall business opportunities to operate in the EU and UK seamlessly. These added challenges may impact our customers' overall business, which may impact our volume and revenue.

Any of these effects of Brexit, among others, could adversely affect our business and financial results.

*Our gas quality inferential measurement device, GasPT®, has not gained market acceptance as rapidly as we anticipated.*

Our future financial performance and ability to commercialize the GasPT device and compete successfully will depend on our ability to effectively manage acceptance and introduction of our GasPT 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 GasPT 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 GasPT device, such as: disruptive technologies, such as the GasPT 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; and 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 GasPT device over the next several years, there is no assurance that our strategy and efforts will be successful.

**Item 1B. Unresolved Staff Comments**

None.

Table of Contents

**Item 2. Properties**

During December 2018, our wholly owned subsidiary, CUI Properties, LLC signed closing documents on the sale and leaseback of our Tualatin, Oregon corporate office real estate located at 20050 SW 112th Avenue in the Tualatin Franklin Business Park. The sale price for the facility was \$8.1 million and the lease is for 10 years. Cash proceeds from the sale were \$4.2 million after expenses and the payoff of the promissory note payable and interest rate swap derivative to Wells Fargo Bank. CUI Properties, LLC, originally purchased our Tualatin, Oregon corporate office real estate in September 2013. In addition to the corporate office, the property also includes the Company's warehouse facility for CUI Inc. in the Power and Electromechanical segment. The purchase price for the property in 2013 was \$5.1 million and was partially funded by a promissory note payable to Wells Fargo Bank in the amount of \$3.7 million plus interest at the rate of 2.0% above LIBOR, payable over ten years.

In November 2017, the Company's Houston operations, included in the Energy segment, relocated to a larger rented office and warehouse space in Houston, TX, of approximately 40,000 square feet for which the lease runs until 2022. This facility replaced a 13,175 square foot facility, that was rented through December 2017.

In March 2015, as part of the Tectrol (CUI-Canada) acquisition in the Power and Electromechanical segment, the Company leased a 73,700 square foot manufacturing facility in Toronto, Canada that runs until 2020.

In September 2015, Orbital, in the Energy segment, completed the construction of a new 46,000 square foot state-of-the-art manufacturing/administration/research and development facility on its existing site in the UK to supplement existing office space. This enhanced onsite facility enabled the Company to not renew its lease on an additional building it was leasing for manufacturing and office space requirements.

Additionally, CUI Japan, in the Power and Electromechanical segment, has leased space in Tokyo, Japan, which is used as a sales office and is leased through March 2020.

The Company has enough manufacturing and office capacity to meet its business needs for the foreseeable future.

**Item 3. Legal Proceedings**

The Company and its subsidiaries are not parties 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, 2018, the Company's issued and outstanding shares consisted of 28,552,886 shares of common stock of which 27,987,706 shares are freely tradable without restriction or limitation under the Securities Act. As of December 31, 2018, 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.



Table of Contents

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.

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 sales prices of our Common Stock on the NASDAQ during each quarter of the two most recent years.

	High	Low
2018		
First Quarter	\$3.25	\$2.50
Second Quarter	3.16	2.56
Third Quarter	3.00	2.15
Fourth Quarter	2.25	1.17
2017		
First Quarter	\$6.90	\$4.31
Second Quarter	4.93	3.17
Third Quarter	4.12	3.01
Fourth Quarter	4.35	2.44

Table of ContentsStock Performance Graph

The following graph compares the performance of our common stock to the performance of the NASDAQ Composite Index and the Russell 2000 Index. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity markets. The comparisons in the chart below are provided in response to SEC disclosure requirements and are not intended to forecast or be indicative of future performance of our common stock. We issued 7,392,856 shares in October 2017, which increased the total number of shares outstanding by about 35% and this had a dilutive effect on the share price as reflected in the following graph.

<i>Index</i>	<i>Period Ending</i>					
	<i>12/31/2013</i>	<i>12/31/2014</i>	<i>12/31/2015</i>	<i>12/31/2016</i>	<i>12/31/2017</i>	<i>12/31/2018</i>
	*					
CUI Global, Inc.	\$ 100.00	\$ 117.88	\$ 111.39	\$ 109.65	\$ 43.51	\$ 19.46
NASDAQ Composite	100.00	114.75	122.74	133.62	173.22	168.30
Russell 2000	100.00	104.89	100.26	121.63	139.44	124.09

\* Assumed \$100 invested on 12/31/2013 in stock or index, including reinvestment of dividends. Fiscal year ended December 31.

Source: S&P Global Market Intelligence

©2019

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 on, among other things, 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.



Table of ContentsCommon Stock Reserved for Future Issuances

Set forth below is a summary of the outstanding securities, transactions and agreements, which relate to 923,898 shares of common stock the Company is required to reserve for potential future issuances.

•923,898 common shares reserved for outstanding options issued under our Equity Compensation Plans.

As of December 31, 2018, there were reserved for issuance an aggregate of 923,898 shares of common stock for options outstanding under the Company's 2008 Equity Incentive Plan and the Company's 2009 Equity Incentive Plan (Executive).

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.

**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.

**2018 Sales of Unregistered Securities**Common Stock Issued During 2018

(Dollars in thousands)

Dates of issuance	Type of issuance	Expense/Prepaid	Stock issuance recipient	Reason for issuance	Total no. of shares	Grant date fair value recorded at issuance
January, April July, and October 2018	Vested restricted common stock	Expense	Four board members	Director compensation	72,157	\$ 175
January and July 2018	Common stock	Expense	Three Employees	Approved bonuses	68,118	183 <sup>(1)</sup>

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

July and December 2018	Common stock	Expense	Related Party, James McKenzie	Pursuant to royalty agreement	5,755	14	(1)
Total 2018 issuances					146,030	\$ 372	(2)(3)

(1) Includes bonus and royalties of \$170 thousand that was accrued and expensed in 2017.

(2) Total excludes \$3 thousand of stock compensation related to royalties that were recorded as expense but not issued and outstanding as of December 31, 2018.

(3) Excludes \$24 thousand of stock compensation for stock issued in 2017 that was amortized from prepaid expense in 2018.

Table of Contents**2017 Sales of Unregistered Securities**Common Stock Issued During 2017

(Dollars in thousands)

Date of issuance	Type of issuance	Expense/ Prepaid/ Cash	Stock issuance recipient	Reason for issuance	Total no. of shares	Grant date fair value recorded at issuance
January, April, August and October 2017	Vested restricted common stock	Expense	Four board members	Director compensation	49,980	\$ 200
January, February and June 2017	Common stock	Expense	Three Employees	Approved bonuses	28,634	182 (1)
January and December 2017	Common stock	Expense	Related party, James McKenzie	Pursuant to royalty agreement	3,293	16 (1)
January and February 2017	Common stock	Expense	Two Employees	Cashless stock option exercises	245	— (2)
May 2017	Common stock	Prepaid expense/expense	Third-party consultant	Strategic investor marketing services	15,000	57 (3)
Total 2017 issuances					97,152	\$ 455 (4)(5)

(1) Includes bonuses and royalty of \$176 thousand that were accrued and expensed in 2016.

(2) The Company received \$0 for the issuance in the cashless option exercises.

(3) Amount includes \$24 thousand that was included in prepaid expense at December 31, 2017.

(4) Does not include stock expense of \$170 thousand included in accrued liabilities at December 31, 2017 for unissued stock.

(5) Does not include registered 7,392,856 shares issued in October 2017 via the S-3 registration statement. See Note 10. Shareholders' Equity for more information on the October share issuances.

Table of Contents**2016 Sales of Unregistered Securities**Common Stock Issued During 2016

(Dollars in thousands)

Dates of issuance	Type of issuance	Expense/ Prepaid	Stock issuance recipient	Reason for issuance	Total no. of shares	Grant date fair value recorded at issuance
January, April, July and October 2016	Vested restricted common stock	Expense	Five board members	Director compensation	46,854	\$ 267 (1)
January and July 2016	Vested restricted common stock	Expense	Four Employees	Approved bonuses	56,782	381 (2)
January, March, September and December 2016	Common stock	Expense	Related party, James McKenzie	Pursuant to royalty agreement	6,275	38
February and April 2016	Common stock	Expense	Three Employees	Cashless Stock option exercise	718	— (3)
Total 2016 issuances					110,629	\$ 686 (4)

(1) Includes \$38 thousand of stock-based expense related to 2015 director fees accrued and expensed in the fourth quarter of 2015.

(2) Bonuses of \$366 thousand were accrued and expensed in the fourth quarter of 2015.

(3) The Company received \$0 for issuances via cashless option exercise.

(4) Does not include stock expense of \$176 thousand included in accrued liabilities at December 31, 2016.

**Shares Eligible for Future Sale**

As of December 31, 2018, we had outstanding 28,552,886 shares of Common Stock. Of these shares, 27,987,706 shares are freely tradable without restriction or limitation under the Securities Act.

The 565,180 shares of Common Stock held by existing shareholders as of December 31, 2018 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 contain selected consolidated financial data as of the dates and for the periods presented. The selected consolidated balance sheet data as of December 31, 2018 and 2017 and the selected consolidated statement of operations data for the years ended December 31, 2018, 2017, and 2016 have been derived from our audited consolidated financial statements and related notes that we have included elsewhere in this Form 10-K. The selected consolidated balance sheet data as of December 31, 2016, 2015, and 2014 and the selected consolidated statement of operations data for the years ended December 31, 2015 and 2014 have been derived from audited consolidated financial statements that are not presented in this Form 10-K. The timing of acquisitions and divestitures completed during the years presented affects the comparability of the selected financial data.



Table of Contents

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 Form 10-K.

(In thousands, except per share amounts)	For the Years Ended December 31,				
	2018 (c)	2017	2016	2015 *	2014
<b>Selected Statements of Operations Data:</b>					
Total revenues	\$96,789	\$83,275	\$86,461	\$86,240	\$76,045
Cost of revenues	67,879	55,406	54,200	53,948	47,494
Gross profit	28,910	27,869	32,261	32,292	28,551
Selling, general and administrative expense	36,341	33,921	34,239	33,023	25,924
Depreciation and amortization	2,152	2,163	2,366	2,862	4,197
Research and development	2,802	2,525	2,016	1,848	1,306
Provision for (credit to) bad debt	33	(13 )	93	195	(39 )
Impairment of goodwill and intangible assets (a)	4,347	3,155	—	4	32
Other operating expenses	13	47	57	54	27
Loss from operations	(16,778)	(13,929)	(6,510 )	(5,694 )	(2,896 )
Other income (expense)	(251 )	234	(251 )	(260 )	(123 )
Interest expense	(502 )	(500 )	(467 )	(441 )	(508 )
(Loss) before taxes	(17,531)	(14,195)	(7,228 )	(6,395 )	(3,527 )
Income tax (benefit) expense	(206 )	(1,606 )	38	(408 )	(726 )
Net loss	\$(17,325)	\$(12,589)	\$(7,266 )	\$(5,987 )	\$(2,801 )
Basic and diluted loss per common share	\$(0.61 )	\$(0.56 )	\$(0.35 )	\$(0.29 )	\$(0.14 )

\* Includes the operations of CUI-Canada since its acquisition in March 2015.

(In thousands, except share data)	As of December 31,				
	2018	2017	2016	2015	2014
<b>Selected Balance Sheet Data:</b>					
Cash and cash equivalents	\$3,979	\$12,646	\$4,617	\$7,267	\$11,704
Short-term investments held to maturity	—	—	—	—	11,160
Total current assets	35,481	41,276	32,103	38,157	43,126
Total assets	70,167	87,909	79,843	90,848	93,054
Total current liabilities	18,586	18,914	17,738	17,055	12,355
Total liabilities	28,629	30,423	31,208	31,332	27,084
Total Stockholders' equity	41,538	57,486	48,635	59,516	65,970
Common shares outstanding	28,552,886	28,406,856	20,916,848	20,806,219	20,747,740

- During the year ended December 31, 2018, management determined that an impairment of \$4.3 million was necessary related to goodwill at Orbital-UK. During the year ended December 31, 2017, management determined
- (a) that an impairment of \$3.2 million was necessary related to goodwill at Orbital-UK. During the year ended December 31, 2014, management determined that an impairment of \$32 thousand was necessary related to intangible, technology rights for a product line that was determined to have a shortened expected life.
  - (b) There was an \$887 thousand tax benefit generated from the effect of the USA Tax Cut and Jobs Act ("Tax Act") passed in December 2017. See Note 14 Income Taxes for more information on this benefit.
  - (c) ASC 606, *Revenue from Contracts with Customers*, was applied on a modified retrospective basis as of January 1, 2018 thus prior year amounts are not restated. See note 2 for more information on the adoption of ASC 606.

Table of Contents

**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, 2018 and notes thereto included in this document and our unaudited 10-Q filings for the first three quarters of 2018 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, expressed or implied by such forward-looking statements. These forward-looking statements are identified by the use of such terms and phrases as “expects,” “intends,” “goals,” “estimates,” “projects,” “plans,” “anticipates,” “should,” “future,” “believes,” and “s

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 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 of our significant accounting policies impact the Company’s 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 have caused a material change in our results of operations, financial position or liquidity for the periods presented in this report.

## Table of Contents

### Asset Impairment

The Company reviews its long-lived assets including finite-lived intangibles 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.

In the fourth quarter of 2018, the Company determined that certain long-term prepaid assets classified on the balance sheet as deposits and other assets, which were reliant on future revenue in order to be amortized to expense, did not have adequate forecasted revenue to justify the current valuation. This was primarily driven by the lack of substantial sales over the last two years within the Energy segment and uncertainty regarding the level of future sales. For that reason, the Company recorded a \$1.5 million impairment to deposits and other assets included in cost of revenues and reclassified \$0.1 million to prepaid assets. The amount reclassified to prepaid assets related to prepaid royalties associated with expected 2019 revenue. There were no asset impairments other than to Goodwill in 2017 or 2016.

### 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.

*2018 Annual Test.* The Company tests for impairment of indefinite-lived intangibles and Goodwill in the second quarter of each year and whenever events or circumstances indicate that the carrying amount of Goodwill exceeds its fair value and may not be recoverable. The Company’s qualitative assessment for indefinite-lived assets at May 31, 2018, followed the guidance in ASC 350-30-35-18A and 18B.

Under current accounting guidance, 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 guidance includes a number of factors to consider in conducting the qualitative assessment. 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 as of May 31, 2018, management completed a qualitative analysis to determine whether it was more likely than not that the fair value of a reporting unit is less than its carrying amount, including Goodwill. To complete the qualitative review, management follows the steps in ASC 350-20-35-3C to evaluate the fair values of the Goodwill and considers all known events and circumstances that might trigger an impairment of Goodwill.

During our review of Goodwill as of May 31, 2018, the Company determined that there were indicators present to suggest that it was more likely than not that the fair value of the Orbital-UK reporting unit was less than its carrying amount.

The significant changes for the Orbital-UK reporting unit subsequent to the most recent impairment test performed as of December 31, 2017 included a decline in the 2018 actual revenue, operating income and cash flows compared to prior forecasts for the same period and a negative change in the 2018 forecasted revenue, operating income and cash flows for the remainder of the year due in part to the longer than expected temporary halt in shipping of its GasPT product to a major customer in Italy and market uncertainty due to the continuing effects of Brexit.

Table of Contents

To test the Orbital-UK reporting unit for impairment as of May 31, 2018, the Company used a quantitative test. The Company estimated the fair value of the Orbital-UK reporting unit using a blend of a market approach and an income approach, which was deemed to be the most indicative of fair value in an orderly transaction between market participants. Under the income approach, the Company determined fair value based on estimated future cash flows of the Orbital-UK reporting unit discounted by an estimated weighted-average cost of capital, reflecting the overall level of inherent risk of the Orbital-UK reporting unit and the rate of return an outside investor would expect to earn. The Company based its cash flow projections for the Orbital-UK reporting unit using a forecast of cash flows and a terminal value developed by capitalizing an assumed stabilized cash flow figure. The forecast and related assumptions were derived from an updated financial forecast prepared during the second quarter of 2018. At that time, a key assumption related to the recoverability of the Orbital-UK reporting unit Goodwill was the resumption of delivery of GasPT product to one of our major customers and continued strengthening of our integration revenues. Under the market approach, appropriate valuation multiples were derived from the historical operating data of selected guideline companies. The valuation multiples were evaluated and adjusted based on the strengths and weaknesses of the Company relative to the selected guideline companies and the multiple was then applied to the appropriate operating data of the Company to arrive at an indication of fair market value. As a result of the analysis, the Company concluded that the carrying value of the Orbital-UK reporting unit exceeded its estimated fair value. The quantitative test for the Orbital-UK reporting unit resulted in an impairment for the Orbital-UK reporting unit, and the Company recorded a Goodwill impairment charge of \$1.3 million during the second quarter of 2018.

*December 2018 Interim Test.* During the fourth quarter of 2018, the Company determined that there were additional indicators present to suggest that it was more likely than not that the fair value of the Orbital-UK reporting unit was less than its carrying amount. The significant changes for the Orbital-UK reporting unit subsequent to the annual goodwill impairment test performed as of May 31, 2018 were driven by a slower recovery in the Energy segment than what was originally forecasted. Actual GasPT revenue continued to lag behind forecasted revenue as acceptance of the technology continued to be slower than anticipated and continued delays associated with existing customer contracts that have not yet resumed even though previously communicated issues had been resolved. This slower than expected recovery, led to lower 2018 Energy segment revenue, operating income and cash flows than originally forecasted.

To test the Orbital-UK reporting unit for impairment, the Company used a quantitative test similar to the one used in May 2018. The Company estimated the fair value of the Orbital-UK reporting unit using a blend of a market approach and an income approach, which was deemed to be the most indicative of fair value in an orderly transaction between market participants. Under the income approach, the Company determined fair value based on estimated future cash flows of the Orbital-UK reporting unit discounted by an estimated weighted-average cost of capital, reflecting the overall level of inherent risk of the Orbital-UK reporting unit and the rate of return an outside investor would expect to earn. The Company based its cash flow projections for the Orbital-UK reporting unit using a revised forecast of cash flows and a terminal value developed by capitalizing an assumed stabilized cash flow figure. The forecast and related assumptions were derived from an updated financial forecast prepared during the fourth quarter of 2018. Under the market approach, appropriate valuation multiples were derived from the historical operating data of selected guideline companies. The valuation multiples were evaluated and adjusted based on the strengths and weaknesses of the Company relative to the selected guideline companies and the multiple was then applied to the appropriate operating data of the Company to arrive at an indication of fair market value. As a result of the analysis, the Company concluded that the carrying value of the Orbital-UK reporting unit exceeded its estimated fair value. The quantitative test for the Orbital-UK reporting unit resulted in further impairment for the Orbital-UK reporting unit, and the Company recorded a goodwill impairment charge of \$3.1 million during the fourth quarter of 2018, which was a

write-off of the remaining Energy segment goodwill. In addition, the reporting units in the Power and Electromechanical segment were also tested for impairment due to the overall decrease in market capitalization experienced in 2018.

As of December 31, 2018, there was goodwill and indefinite lived assets remaining for CUI Inc., CUI-Canada and CUI-Japan reporting units, which are included in the Power and Electromechanical segment.

*December 2017 Interim Test.* During the fourth quarter of 2017, the Company determined that there were indicators present to suggest that it was more likely than not that the fair value of the Orbital-UK reporting unit was less than its carrying amount. The significant changes for the Orbital-UK reporting unit subsequent to the annual goodwill impairment test performed as of May 31, 2017 included a decline in the 2017 actual revenue, operating income and cash flows compared to previously forecasted results and a decline in the 2018 forecasted revenue, operating income and cash flows due in part to the longer than expected temporary halt in shipping of its GasPT product to a major customer in Italy and market uncertainty due to the continuing effects of Brexit.



## Table of Contents

To test the Orbital-UK reporting unit for impairment, the Company used a quantitative test. The Company estimated the fair value of the Orbital-UK reporting unit using a blend of a market approach and an income approach, which was deemed to be the most indicative of fair value in an orderly transaction between market participants. Under the income approach, the Company determined fair value based on estimated future cash flows of the Orbital-UK reporting unit discounted by an estimated weighted-average cost of capital, reflecting the overall level of inherent risk of the Orbital-UK reporting unit and the rate of return an outside investor would expect to earn. The Company based its cash flow projections for the Orbital-UK reporting unit using a forecast of cash flows and a terminal value developed by capitalizing an assumed stabilized cash flow figure. The forecast and related assumptions were derived from an updated financial forecast prepared during the fourth quarter of 2017. Under the market approach, appropriate valuation multiples were derived from the historical operating data of selected guideline companies. The valuation multiples were evaluated and adjusted based on the strengths and weaknesses of the Company relative to the selected guideline companies and the multiple was then applied to the appropriate operating data of the Company to arrive at an indication of fair market value. As a result of the analysis, the Company concluded that the carrying value of the Orbital-UK reporting unit exceeded its estimated fair value. The quantitative test for the Orbital-UK reporting unit resulted in an impairment for the Orbital-UK reporting unit, and the Company recorded a goodwill impairment charge of \$3.2 million during the fourth quarter of 2017.

*2016 Annual Test.* In 2016, the analysis, determined there was no impairment necessary to goodwill. Through these reviews, management concluded 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 current accounting guidance. In 2016, in addition to the qualitative analysis, we performed a quantitative analysis of goodwill impairment and concluded no impairment of goodwill was required.

## Long-lived assets and finite lived intangible assets

Besides goodwill being tested for impairment, the Company also tested its long-lived assets and finite lived intangible assets for Orbital-UK. The result of the quantitative test of undiscounted cash flows, did not result in any impairment.

## 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.

Stock bonuses issued to employees are recorded at fair value using the market price of the stock on the date of grant and expensed over the vesting period or immediately if fully vested on date of issuance. Employee stock options are

recorded at fair value using the Black-Scholes option pricing model. The underlying assumptions used in the Black-Scholes option 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 data website; and (4) other inputs are determined based on previous experience and related estimates. With regards to expected volatility for determining the fair value of our stock options, the Company utilizes an appropriate period for historical share prices for CUI Global, Inc. that best reflects the expected weighted average lifespan of the options.

*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 an 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. In 2018, 2017, and 2016, the Company used the quoted market price of the Company's common stock to estimate the fair value of stock transactions.

## Table of Contents

### Revenue Recognition

On January 1, 2018, we adopted the new accounting standard ASC 606, "Revenue from Contracts with Customers" and all the related amendments ("new revenue standard"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. This guidance includes the required steps to achieve the core principle that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new revenue standard was applied using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to accumulated deficit as of January 1, 2018. As a result of the adoption of this standard, certain changes have been made to the condensed consolidated balance sheets. We expect the ongoing impact of the adoption of the new standard to primarily affect the timing of revenue recognition. The most significant impact was on Power and Electromechanical segment revenue with certain distribution customers that were previously recorded as "sell through." Under the new accounting guidance, we record the revenue upon sale to the distributor with an appropriate amount reserved for estimated returns and allowances as the Company recognizes revenue at the time the related performance obligation is satisfied by transferring a promised good or service to its customers. For the Power and Electromechanical segment, their revenue is based upon the transfer of goods and satisfaction of its performance obligations as of a point in time. During the transition this had the effect of having a certain amount of revenue not recorded as revenue but as part of the cumulative effect of the accounting change. For the majority of contracts in the Energy segment, revenue is still measured over time using the cost-to-cost method. The change that most affected the transition adjustment on Energy segment revenue was the requirement to limit revenue recognition on contracts without an enforceable right to payment for performance completed to date. Revenue on contracts without a specific enforceable right to payment on work performed to date was "clawed back" as part of the Company's transition adjustment. The cumulative effect adjustment recorded as of January 1, 2018 was a net \$1.9 million decrease to accumulated deficit due to a \$2.8 million transition adjustment from the Power and Electromechanical segment partially offset by a \$(0.9) million transition adjustment from the Energy segment, net of deferred tax.

### Power and Electromechanical Segment

The Power and Electromechanical segment generates its revenue from two categories of products: **power supply solutions** - including external and embedded ac-dc power supplies, dc-dc converters, basic digital point of load modules, ICE (Intelligent Control of Energy) products enabled by the VPS patented software system and offering a technology architecture that addresses power and related accessories; and **components** - including connectors, speakers, buzzers, and industrial control solutions including encoders and sensors. These offerings provide a technology architecture that addresses power and related accessories to industries as broadly ranging as telecommunications, consumer electronics, medical and defense, among others. The production and delivery of these products are considered single performance obligations. Revenue is recognized when we satisfy a performance obligation and this occurs upon shipment and ownership transfer of our products to our customers at a point in time.

### Energy Segment

The Energy segment generates their revenue from a portfolio of products, services and resources that offer a diverse range of personalized gas engineering solutions to the gas utilities, power generation, petrochemical, emissions, manufacturing and automotive industries, among others.

Orbital accounts for a majority of its contract revenue proportionately over time. For our performance obligations satisfied over time, we recognize revenue by measuring the progress toward complete satisfaction of that performance obligation. The selection of the method to measure progress towards completion can be either an input method or an output method and requires judgment based on the nature of the goods or services to be provided.

For our construction contracts, revenue is generally recognized over time as our performance creates or enhances an asset that the customer controls. Our fixed price construction projects generally use a cost-to-cost input method to measure our progress towards complete satisfaction of the performance obligation as we believe it best depicts the transfer of control to the customer. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation.

## Table of Contents

The timing of revenue recognition for Energy products also depends on the payment terms of the contract, as our performance does not create an asset with an alternative use to us. For those contracts which we have a right to payment for performance completed to date at all times throughout our performance, inclusive of a cancellation, we recognize revenue over time. As discussed above, these performance obligations use a cost-to-cost input method to measure our progress towards complete satisfaction of the performance obligation as we believe it best depicts the transfer of control to the customer. However, for those contracts for which we do not have a right, at all times, to payment for performance completed to date, we recognize revenue at the point in time when control is transferred to the customer.

For our services contracts, revenue is also generally recognized over time as the customer simultaneously receives and consumes the benefits of our performance as we perform the service. For our fixed price service contracts with specified service periods, revenue is generally recognized on a straight-line basis over such service period when our inputs are expended evenly, and the customer receives and consumes the benefits of our performance throughout the contract term.

For certain of our revenue streams, such as call-out repair and service work, outage services and training that are performed under time and materials contracts, our progress towards complete satisfaction of such performance obligations is measured using an output method as the customer receives and consumes the benefits of our performance completed to date.

Due to uncertainties inherent in the estimation process, it is possible that estimates of costs to complete a performance obligation will be revised in the near-term. For those performance obligations for which revenue is recognized using a cost-to-cost input method, changes in total estimated costs, and related progress towards complete satisfaction of the performance obligation, are recognized on a cumulative catch-up basis in the period in which the revisions to the estimates are made. When the current estimate of total costs for a performance obligation indicate a loss, a provision for the entire estimated loss on the unsatisfied performance obligation is made in the period in which the loss becomes evident.

Product-type contracts (for example, sale of GasPT units) for which revenue does not qualify to be recognized over time are recognized at a point in time. Revenues from warranty and maintenance activities are recognized ratably over the term of the warranty and maintenance period.

### Accounts Receivable, Contract Assets and Contract Liabilities

Accounts receivable are recognized in the period when our right to consideration is unconditional. Accounts receivable are recognized net of an allowance for doubtful accounts. A considerable amount of judgment is required in assessing the likelihood of realization of receivables.

The timing of revenue recognition may differ from the timing of invoicing to customers. Contract assets include unbilled amounts from our construction projects when revenue recognized under the cost-to-cost measure of progress exceeds the amounts invoiced to our customers, as the amounts cannot be billed under the terms of our contracts. Such amounts are recoverable from our customers based upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of a contract. Also included in contract assets are amounts we seek or will seek to collect from customers or others for errors or changes in contract specifications or design, contract change orders or modifications in dispute or unapproved as to both scope and/or price or other customer-related causes of unanticipated additional contract costs (claims and unapproved change orders). Our contract assets do not include capitalized costs to obtain and fulfill a contract. Contract assets are generally classified as current within the Consolidated Balance Sheets.

Contract liabilities from our construction contracts occur when amounts invoiced to our customers exceed revenues recognized under the cost-to-cost measure of progress. Contract liabilities additionally include advanced payments from our customers on certain contracts. Contract liabilities decrease as we recognize revenue from the satisfaction of the related performance obligation and are recorded as either current or long-term, depending upon when we expect to recognize such revenue.

#### *Refund Liabilities and Corresponding Inventory Adjustment*

Refund liabilities primarily represent estimated future new product introduction returns and estimated future scrap returns. Estimated future returns and allowances are reserved based on historical return rates. In addition to the refund liabilities recorded for future returns, the Company also records an adjustment to inventory and corresponding adjustment to cost of revenue for the Company's right to recover products from customers upon settling the refund liability.

Table of Contents

Performance Obligations

*Remaining Performance Obligations*

Remaining performance obligations represents the transaction price of firm orders for which work has not been performed and excludes unexercised contract options and potential orders under ordering-type contracts. As of December 31, 2018, the Company's remaining performance obligations are generally expected to be filled within the next 12 months.

Any adjustments to net revenues, cost of revenues, and the related impact to operating income are recognized as necessary in the period they become known. These adjustments may result from positive program performance, and may result in an increase in operating income during the performance of individual performance obligations, if we determine we will be successful in mitigating risks surrounding the technical, schedule and cost aspects of those performance obligations. Likewise, these adjustments may result in a decrease in operating income if we determine we will not be successful in mitigating these risks. Changes in estimates of net revenues, cost of revenues and the related impact to operating income are recognized on a cumulative catch-up basis in the period they become known, which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a performance obligation's percentage of completion. A significant change in one or more of these estimates could affect the profitability of one or more of our performance obligations. For separately priced extended warranty or product maintenance performance obligations, when estimates of total costs to be incurred on the performance obligation exceed total estimates of revenue to be earned, a provision for the entire loss on the performance obligation is recognized in the period the loss is determined.

*Performance Obligations Satisfied Over Time*

To determine the proper revenue recognition method for contracts for our Energy segment, we evaluate whether a single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to separate the single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period.

For most of our contracts, the customer contracts with us to provide a significant service of integrating a complex set of tasks and components into a single project or capability (even if that single project results in the delivery of multiple units). Hence, the entire contract is accounted for as one performance obligation. Less commonly, however, we may promise to provide distinct goods or services within a contract in which case we separate the contract into more than one performance obligation. If a contract is separated into more than one performance obligation, we allocate the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. We infrequently sell standard products with observable standalone sales. In cases where we do, the observable standalone sales are used to determine the standalone selling price. More frequently, we sell a customized customer specific solution, and in these cases we typically use the expected cost plus a margin approach to estimate the standalone selling price of each performance obligation.

*Performance Obligations Satisfied at a Point in Time.*

Revenue from goods and services transferred to customers at a single point in time accounted for 84% of revenues for the year ended December 31, 2018. The majority of our revenue recognized at a point in time is in our Power and Electromechanical segment. Revenue on these contracts is recognized when the product is shipped and the customer takes ownership of the product. Determination of ownership and control transfer is determined by shipping terms delineated on the customer purchase orders.

*Variable Consideration*

The nature of our contracts gives rise to several types of variable consideration, including new product returns and scrap return allowances primarily in our Power and Electromechanical segment. In rare instances in our Energy segment, we include in our contract estimates, additional revenue for submitted contract modifications or claims against the customer when we believe we have an enforceable right to the modification or claim, the amount can be estimated reliably and its realization is probable. In evaluating these criteria, we consider the contractual/legal basis for the claim, the cause of any additional costs incurred, the reasonableness of those costs and the objective evidence available to support the claim. We include new product introduction and scrap return estimates in our calculation of net revenue when there is a basis to reasonably estimate the amount of the returns. These estimates are based on historical return experience, anticipated returns and our best judgment at the time. These amounts are included in our calculation of net revenue recorded for our contracts and the associated remaining performance obligations.



Table of Contents

**Liquidity and Capital Resources**

General

As of December 31, 2018, CUI Global held Cash and cash equivalents of \$4.0 million. Operations, other intangible assets, and equipment have been funded through cash on hand and short-term credit facilities during the year ended December 31, 2018.

Cash used in Operations

There was a use of cash from operations of approximately \$12.3 million during the year ended December 31, 2018. This was an increase from the use of cash from operations of approximately \$9.4 million and approximately \$0.6 million for the years ended December 31, 2017 and 2016, respectively. Overall, the change in cash used in operations is primarily the result of the net loss in 2018 before non-cash expenses affected by changes in assets and liabilities.

Cash used in operations of \$12.3 million in 2018 was a \$2.9 million increase in cash used compared to the amount used in operations in 2017. The year ended December 31, 2018 benefited from higher revenue and the related gross profit in the Power and Electromechanical segment resulting in cash provided by operating activities from this segment of \$4.8 million. In 2018, cash used in operating activities by the Energy segment was approximately \$11.1 million and cash used in operating activities by the Other category was approximately \$6.0 million.

During 2018, in addition to the Company's net loss after non-cash items, significant factors affecting cash used in operating activities included the change in trade accounts receivable and inventories. The change in trade accounts receivable accounted for \$3.8 million of cash used in operating activities and was due to higher fourth quarter revenues in both the Power and Electromechanical and Energy segments compared to the revenues in the fourth quarter of 2017. Increased cash usage of \$2.2 million from change in inventories were due to a build-up of Power and Electromechanical inventories due to longer lead times for these products and timing related to customer order and delivery schedules, partially offset by positive changes to inventories in the Energy segment. Also contributing to the increased cash usage was a decrease in contract liabilities of \$2.3 million. The increased cash usage was partially offset by a combined \$3.4 million of cash provided by changes in accounts payable, accrued expenses and refund liabilities.

We believe cash used in operating activities will improve in the Energy segment in 2019, primarily due to the expected continued improvement in revenue from other integration related systems including biomethane to grid solutions. The Power & Electromechanical segment is expected to continue to provide cash from operations and we believe the cash usage rate in the other category will be flat to slightly lower due to cost-cutting initiatives put in place over the past year.

The cash from operations in 2017 compared to 2016 was negatively affected by a larger net loss attributable to the Energy segment and the timing of accounts receivable collections and accounts payable payments in both the Energy and Power and Electromechanical Segments.

During 2017, in addition to the change in trade accounts receivable and accounts payable, significant factors that impacted the cash used in operations included cash used for inventory purchases of approximately \$0.4 million associated with timing of customer orders and ongoing projects, \$0.5 million related to the change in deposits and other assets due to the increase in long-term prepaid royalties at Orbital-UK, \$0.4 million use of cash related to changes in accrued expenses primarily due to a change in accrued compensation in the Energy segment and a \$0.4 million use of cash from changes in prepaid assets that affected all three segments. Changes in the combined contract assets and contract liabilities were a combined approximate \$2.8 million source of cash in the period related to billings on projects in the Energy segment and increases in deferred revenue from distributor activity within the Power and Electromechanical segment.

## Table of Contents

On a segment basis, in 2017, the Power and Electromechanical segment contributed cash from operations of approximately \$3.9 million while the Energy segment used cash of approximately \$8.4 million and the Other category used cash of approximately \$4.9 million. The Energy segment was hampered by the continued costs of building brand awareness in North America and a regulatory issue in Italy unrelated to the technology that has delayed the next phase of a significant GasPT project.

The use of cash from operations in 2016 was benefited by lower trade accounts receivable balances in both segments at December 31, 2016 compared to December 31, 2015 as a result of improved collections in both segments and the transition of Tectrol customers to CUI-Canada that delayed some payments at the end of 2015. CUI-Canada's and Orbital-UK's cash from operations improved significantly from 2015 while Orbital Gas Systems, North America, Inc. continued to use more cash than it produced due to the cost of establishing the Orbital brand in the U.S.

During 2016, in addition to the change in trade accounts receivable, significant factors that impacted the cash used in operations included cash used for inventory purchases that increased approximately \$1.7 million associated with timing of customer orders and ongoing projects, and a use of cash from changes in contract assets of approximately \$1.5 million. This was partially offset by cash provided by the change in contract liabilities of \$1.4 million related to billings on projects in the Energy segment and increases in deferred revenue from distributor activity within the Power and Electromechanical segment.

During 2018, 2017 and 2016, the Company used stock and options as a form of payment to certain vendors, consultants, directors and employees. For years ended December 31, 2018, 2017 and 2016, the Company recorded a total of \$0.2 million, \$0.4 million and \$0.7 million, respectively for share-based compensation related to equity given, or to be given, to employees, directors and consultants for services provided and as payment for royalties earned. The decreases in 2018 compared to 2017 and in 2017 compared to 2016 were due to lower stock-based bonuses, lower stock-based services, and lower stock option vesting expense as all remaining unvested stock options fully vested in 2016.

## Proceeds from Sale of Building, Capital Expenditures and Investments

In December 2018, the Company completed the sale and leaseback of its Tualatin headquarters. The sale for \$8.1 million generated net cash proceeds of \$4.2 million after transaction related expenses and after paying off the mortgage on the building and related interest rate swap derivative. As part of the ten-year lease the Company signed on the building, the Company invested in a \$0.4 million restricted certificate of deposit to serve as security on the lease, which is included in deposits and other assets on the balance sheet.

During the years ended 2018, 2017 and 2016, CUI Global invested \$1.0 million, \$0.9 million and \$0.8 million, respectively, in fixed assets. These investments typically include additions to equipment for engineering and research and development, tooling for manufacturing, furniture, computer equipment for office personnel, facilities

improvements and other fixed assets as needed for operations. The Company anticipates further investment in fixed assets during 2019 in support of its on-going business and continued development of product lines and technologies.

CUI Global invested \$0.5 million, \$0.6 million, and \$0.9 million in other intangible assets during 2018, 2017 and 2016, respectively. These investments typically include product certifications, technology rights, capitalized website development, software for engineering and research and development and software upgrades for office personnel. Investments in 2018 and 2017 primarily related to product certifications in the Power and Electromechanical segment and investments in software in the Energy segment. The increased investments in 2016 were due to an increase in product certifications and an ERP software implementation at Orbital-UK that was completed in the early part of 2018. The Company expects its investment in other intangible assets will continue throughout 2019.

During 2018, CUI Global made investments of \$0.7 million in convertible notes receivable with Virtual Power Systems (“VPS”) to support the two companies’ continued collaboration and development of industry transforming Software Defined Power technologies. The notes accrue interest at 2% per annum and the interest is compounded annually. Unless converted into shares earlier, principal and accrued interest will convert automatically on the maturity date (October 27, 2019) into shares of VPS common stock at the then current fair market value. If VPS receives gross proceeds greater than \$3 million prior to the maturity date in a sale or series of sales of equity securities, the principal and unpaid accrued interest of the note will automatically convert into conversion shares at 80% of the price paid per share for equity securities by investors at that time. As the pioneer in virtualizing power, VPS and its Software Defined Power® (SDP) enables energy to be reallocated on-demand to data center racks, nodes, workloads or circuits using AI and machine learning to predict and respond to changes in power capacity and demand. SDP-enabled power components, including uninterruptible power systems, generators, power distribution units, battery backups, and power supply units, can react quickly and effectively to sudden shifts and surges in power usage patterns. VPS and CUI Global share the vision that the convergence of data center power infrastructure and software will dramatically improve how energy is provisioned, managed and utilized in modern data centers. Together, we've set an aggressive pace for advancing the pace of adoption and availability of Software Defined Power solutions.

## Table of Contents

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 one year or less, and 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. Since the investment in the VPS convertible note, is considered a strategic investment, the board and management reviewed and approved the investment above the board set limit for individual issuers.

## Financing Activities

During the years ended December 31, 2018, 2017, and 2016, the Company issued payments of \$3 thousand, \$29 thousand and \$41 thousand, respectively, against capital leases of motor vehicles and equipment. The Company paid \$3.4 million, \$89 thousand and \$85 thousand against the mortgage note payable in 2018, 2017 and 2016, respectively, with the payoff coming in 2018 as part of the sale-leaseback of the Company's headquarters building. In addition, with the payoff of the mortgage on the Company's headquarters building, the Company also closed out its interest rate swap derivative with a payment of \$0.2 million. Also in 2018, 2017, and 2016 the Company issued payments of \$45 thousand, \$61 thousand, and \$59 thousand, respectively, toward the contingent liability associated with the Tectrol acquisition.

At December 31, 2018, the Company had a 1.5 million British pound sterling overdraft facility (approximately \$1.9 million at December 31, 2018) and a \$5.0 million revolving line of credit (LOC). For the year ended December 31, 2018, and 2017, the Company recorded proceeds of \$19.5 million and \$9.8 million, respectively, from the Company's overdraft facility in the U.K., and \$20.0 million and \$22.3 million, respectively, from the Company's line of credit. These proceeds were paid back during 2018 and 2017 except for balances of \$1.3 million on the overdraft facility and \$1.0 million on the line of credit facility at December 31, 2018.

During March 2019, CUI Global received a firm commitment from Bank of America for a new two-year credit facility for CUI Inc. and CUI-Canada, perfected by a first security lien on all assets of CUI Inc. and CUI-Canada. The facility would also include a \$3 million sub-limit for use by CUI-Global non-loan party subsidiaries as a reserve under the borrowing base. The credit facility is to provide for working capital and general corporate purposes. The credit facility would provide up to \$10,000,000 in a Revolving Line of Credit Facility (“Revolver”), including a sub-limit for letters of credit. Interest will be based upon Daily Floating LIBOR at LIBOR + 2.00%. The Company expects to close on the credit facility in April 2019.

## S-3 registration

The Company filed an S-3 registration statement on March 14, 2017 containing a prospectus that was effective March 29, 2017. With this filing, CUI Global may from time to time issue various types of securities, including common stock, preferred stock, debt securities and/or warrants, up to an aggregate amount of \$100 million.

On October 23, 2017, the Company closed on an underwritten public offering of 7,392,856 shares at a public offering price of \$2.80 per share, including 964,285 shares sold at the public offering price pursuant to the underwriter's exercise in full of its option to purchase additional shares to cover over-allotments. The net proceeds to CUI Global (after deducting underwriting discount and other expenses payable by the Company) were approximately \$18.9 million. The Company has used the net proceeds from the offering primarily for general corporate purposes, which includes operating expenses, working capital to improve and promote its commercially available products, advance product candidates, to expand international presence and commercialization, research and development, for general capital expenditures and for satisfaction of debt obligations.

As the Company focuses on strategic acquisitions, technology development, product line additions, and increasing Orbital Gas Systems market presence, it will fund these activities together with related sales and marketing efforts for its various product offerings with cash on hand, including proceeds from future issuances of equity through the S-3 registration statement, and available debt.

## Table of Contents

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.

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

### Financing activities – related party activity

During 2018, 2017 and 2016, \$0.3 million, \$0.3 million, and \$0.3 million, respectively in interest payments were made in relation to the promissory notes issued to related party, IED, Inc. The promissory note terms include a due date of May 15, 2020 and an interest rate of 5% per annum, with interest payable monthly and the principal due as a balloon payment at maturity.

Please see Note 7 Notes Payable and Note 11 Related Party Transactions for further discussion of these transactions.

### Recap of Liquidity and Capital Resources

During the year ended December 31, 2018, the Company continued to use cash in the Energy segment while the CUI-Canada operation was more fully integrated into the Company's Power and Electromechanical segment. As expected in the three years following two major additions, along with an ongoing focus on research and development and growth initiatives, cash usage was greater than what it will be when the businesses are fully mature. The net cash used in operating activities increased to \$12.3 million from \$9.4 million in 2017 with much of that due to the ongoing efforts to grow the current businesses as well as the effects of the delay in the major GasPT project in Italy and overall economic effects of Brexit and the transition in the UK, which has resulted in considerable delays in economic activities in the UK.

The Wells Fargo mortgage promissory note was paid off with cash generated from the sale and leaseback of the Company's headquarters building. See Note 7 Notes Payable for more information on this note.

The Company's wholly owned subsidiary, CUI Inc. has a revolving Line of Credit (LOC) with Wells Fargo Bank in the principal amount of \$5.0 million line of credit, until June 1, 2019. On October 5, 2016, Orbital Gas Systems Ltd. signed a five-year agreement with the London branch of Wells Fargo Bank N.A. for a multi-currency variable rate overdraft facility with a facility limit of 1.5 million pounds sterling (\$1.9 million at December 31, 2018) that expires on October 5, 2021. See Note 8 Working Capital Line of Credit and Overdraft Facility for more information on these two credit facilities.

At December 31, 2018, the Company had cash and cash equivalents balances of \$4.0 million. At December 31, 2018 and 2017, the Company had \$0.3 million and \$0.9 million, respectively, of cash and cash equivalents balances at domestic financial institutions, which were covered under the FDIC insured deposits programs and \$68 thousand and \$0.2 million, respectively, at foreign financial institutions covered under the United Kingdom Financial Services Compensation (FSC) and the Canada Deposit Insurance Corporation (CDIC). At December 31, 2018 and 2017, the Company held \$0.3 million and \$0.1 million, respectively, in Japanese foreign bank accounts, \$1 thousand and \$0.1 million, respectively, in European foreign bank accounts and \$67 thousand and \$0.1 million, respectively, in Canadian bank accounts.



Table of Contents

The following tables present our contractual obligations as of December 31, 2018:

(In thousands)	Payments due by period				Total
	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years	
Capital lease obligations:					
Minimum lease payments	\$4	\$5	\$—	\$—	\$9
Operating lease obligations:					
Operating leases	1,482	2,160	1,618	3,307	8,567
Notes payable obligations:					
Notes payable maturities	—	5,304	—	—	5,304
Interest on notes payable <sup>(1)</sup>	265	100	—	—	365
Total Obligations	\$1,751	\$7,569	\$1,618	\$3,307	\$14,245

<sup>(1)</sup> The interest on notes payable includes fixed interest on the related party note payable to IED, Inc. For further information regarding notes payable see Note 7 Notes Payable.

As of December 31, 2018, the Company had an accumulated deficit of \$124.0 million.

The Company expects the revenues from its Power and Electromechanical and Energy Segments, cash on hand, and cash available from debt facilities, including the credit facility with Bank of America discussed above, to cover operating and other expenses for the next twelve months of operations. However, in the short-term, the Company expects its Orbital operations in Houston and the U.K. to continue to need cash support as the businesses increase their market positions and revenue. In the first 2 1/2 months of 2019, the Company supported the Energy segment businesses with \$2.2 million in supplemental cash. Management expects the cash support for the Energy segment businesses to decline significantly from the second quarter onward. The CUI-Canada operation in the Power and Electromechanical segment will also continue to be near break even in the short-term. If revenues and other funds 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 would have a material adverse effect on the Company. See Note 2 Summary of Significant Accounting Policies - Company Conditions, for additional discussion of the Company's financial condition and current liquidity.

**Off-Balance Sheet Arrangements**

As of December 31, 2018, the Company had no off-balance sheet arrangements.

Table of Contents**Results of Operations**

The following tables set forth, for the periods indicated, certain financial information regarding revenue and costs by segment:

(Dollars in thousands)	For the Year Ended December 31, 2018										
	Power and Electro - mechanical	Percent of Segment Revenues	Energy	Percent of Segment Revenues	Other	Percent of Segment Revenues	Total	Percent of Total Revenues			
	\$	%	\$	%	\$	%	\$	%	\$	%	
Total revenues	\$76,447	100.0	\$20,342	100.0	\$—	—	\$96,789	100.0			
Cost of revenues	50,096	65.5	17,783	87.4	—	—	67,879	70.1			
Gross profit	26,351	34.5	2,559	12.6	—	—	28,910	29.9			
Operating expenses:											
Selling, general and administrative	17,712	23.2	13,687	67.3	4,942	—	36,341	37.5			
Depreciation and amortization	627	0.8	1,525	7.5	—	—	2,152	2.2			
Research and development	2,647	3.5	155	0.7	—	—	2,802	2.9			
Provision for bad debt	20	—	13	0.1	—	—	33	0.1			
Impairment of goodwill and intangible assets	—	—	4,347	21.4	—	—	4,347	4.5			
Other operating expenses	13	—	—	—	—	—	13	—			
Total operating expenses	21,019	27.5	19,727	97.0	4,942	—	45,688	47.2			
Income (loss) from operations	\$5,332	7.0	\$(17,168)	(84.4)	\$(4,942)	—	\$(16,778)	(17.3)			

(Dollars in thousands)	For the Year Ended December 31, 2017										
	Power and Electro - mechanical	Percent of Segment Revenues	Energy	Percent of Segment Revenues	Other	Percent of Segment Revenues	Total	Percent of Total Revenues			
	\$	%	\$	%	\$	%	\$	%	\$	%	
Total revenues	\$64,432	100.0	\$18,843	100.0	\$—	—	\$83,275	100.0			
Cost of revenues	42,493	66.0	12,913	68.5	—	—	55,406	66.5			
Gross profit	21,939	34.0	5,930	31.5	—	—	27,869	33.5			
Operating expenses:											
Selling, general and administrative	16,415	25.5	12,588	66.8	4,918	—	33,921	40.7			
Depreciation and amortization	818	1.2	1,345	7.2	—	—	2,163	2.6			
Research and development	2,303	3.6	222	1.2	—	—	2,525	3.0			

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

Provision (credit) for bad debt	3	—	%	(16 )	(0.1 )	%	—	—	%	(13 )	—	%
Impairment of goodwill and intangible assets	3	—	%	3,152	16.7	%	—	—	%	3,155	3.8	%
Other operating expenses	42	0.1	%	5	—	%	—	—	%	47	0.1	%
Total operating expenses	19,584	30.4	%	17,296	91.8	%	4,918	—	%	41,798	50.2	%
Income (loss) from operations	\$2,355	3.6	%	\$(11,366)	(60.3 )	%	\$(4,918)	—	%	\$(13,929)	(16.7 )	%

(Dollars in thousands)

For the Year Ended December 31, 2016

	Power and Electro-mechanical	Percent of Segment Revenues	Energy	Percent of Segment Revenues	Other	Percent of Segment Revenues	Total	Percent of Total Revenues	
	\$	%	\$	%	\$	%	\$	%	
Total revenues	\$58,403	100.0	\$28,058	100.0	\$—	—	\$86,461	100.0	%
Cost of revenues	38,059	65.2	16,141	57.5	—	—	54,200	62.7	%
Gross profit	20,344	34.8	11,917	42.5	—	—	32,261	37.3	%
Operating expenses:									
Selling, general and administrative	16,756	28.7	12,006	42.8	5,477	—	34,239	39.6	%
Depreciation and amortization	963	1.6	1,401	5.0	2	—	2,366	2.7	%
Research and development	1,873	3.2	143	0.5	—	—	2,016	2.3	%
Provision for bad debt	49	0.1	44	0.2	—	—	93	0.1	%
Other operating expenses	58	0.1	(1 )	—	—	—	57	0.1	%
Total operating expenses	19,699	33.7	13,593	48.5	5,479	—	38,771	44.8	%
Income (loss) from operations	\$645	1.1	\$(1,676)	(6.0 )	\$(5,479)	—	\$(6,510)	(7.5 )	%

Table of ContentsRevenue

Revenues by Segment (Dollars in thousands)	For the Years Ended December 31,					
	2018	Percent Change	2017	Percent Change	2016	
Power and Electromechanical	\$76,447	18.6 %	\$64,432	10.3 %	\$58,403	
Energy	20,342	8.0 %	18,843	(32.8 )%	28,058	
Other	—	— %	—	— %	—	
Total revenues	\$96,789	16.2 %	\$83,275	(3.7 )%	\$86,461	

*2018 compared to 2017*

Revenues in 2018 are attributable to continued sales and marketing efforts, and sales through the distribution channel customers. Net revenues for the year ended December 31, 2018 were greater than in 2017 due to higher revenues in our Power and Electromechanical segment associated with the timing of customer project delivery schedules due to higher sales through our distribution customers and the revenue recognition accounting change while sales to direct customers were relatively flat. Higher revenue in the Energy segment in 2018 is associated with a strong fourth quarter for revenues due to the timing of customer project delivery schedules and despite the continued delay in shipment of GasPTs toward a significant project in Italy. Energy segment revenue was higher in both our UK and Houston facilities.

The customer orders related to the Power and Electromechanical segment are associated with the existing product offering, continued new product introductions, continued sales and marketing programs, new customer engagements, and distribution channel sales.

The Power and Electromechanical segment held a backlog of customer orders of approximately \$21.8 million as of December 31, 2018 compared to a backlog of customer orders of approximately \$20.2 million at December 31, 2017. At December 31, 2018, the Energy segment held a backlog of customer orders of approximately \$15.7 million compared to approximately \$12.6 million at December 31, 2017.

CUI Inc. introduced 1,268 new products during the year ended 2018 compared to 1,122 new products during the year ended 2017. The continued product expansion including ICE products, and our distribution sales channels are 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 new product introductions in efforts to have CUI products designed into new projects.

*2017 compared to 2016*

Revenues in 2017 were attributable to continued sales and marketing efforts, sales through the distribution channel customers, the CUI-Canada related product line, and the revenues generated since the January 2015 opening of Orbital Gas Systems, North America, Inc. Net revenues for the year ended December 31, 2017 were lower than in 2016 due to lower revenues in our Energy segment associated with the timing of customer project delivery schedules and a regulatory issue in Italy unrelated to the technology that delayed the next phase of that project as well as lower translated revenue at our UK operations due to the lower value British pound Sterling following Brexit. The value of the British pound Sterling began a slow recovery after bottoming out in the first quarter of 2017 and was no longer a negative factor in the fourth quarter of 2017 as compared to 2016. Partially offsetting the decrease in the Energy segment, was an increase in revenue in the Power and Electromechanical segment for the year ended December 31, 2017 due to the timing of customer delivery schedules and sell through activity at distributors under the revenue recognition standard in place at the time.

The Power and Electromechanical segment held a backlog of customer orders of approximately \$20.2 million as of December 31, 2017 compared to a backlog of customer orders of approximately \$18.1 million at December 31, 2016. At December 31, 2017, the Energy segment held a backlog of customer orders of approximately \$12.6 million compared to approximately \$12.1 million at December 31, 2016.

Table of Contents

CUI Inc. introduced 1,122 new products during the year ended 2017 compared to 968 new products during the year ended 2016.

Cost of Revenues

Cost of Revenues by Segment (Dollars in thousands)	For the Years Ended December 31,					
	2018	Percent Change	2017	Percent Change	2016	
Power and Electromechanical	\$50,096	17.9 %	\$42,493	11.7 %	\$38,059	
Energy	17,783	37.7 %	12,913	(20.0 )%	16,141	
Other	—	— %	—	— %	—	
Total cost of revenues	\$67,879	22.5 %	\$55,406	2.2 %	\$54,200	

*2018 compared to 2017*

The cost of revenues as a percentage of revenue increased to 70% during the year ended December 31, 2018 from 67% during the year ended December 31, 2017. The increase in the cost of revenues as a percentage of revenue was due largely to an increase to inventory reserves of \$1.4 million related to a write-down of inventory and a \$1.5 million write down of long-term deposits and other assets that were prepaid within the Energy segment. Also contributing to the higher percentage was a less favorable revenue mix of integration projects in the Energy segment in 2018 offset by a slightly more favorable product mix in the Power and Electromechanical segment on greater volume. As a result of the impairments taken and the less favorable revenue mix in the Energy segment, for the year ended December 31, 2018, the cost of revenues as a percentage of revenue in the Energy segment increased 18 percentage points from 69% to 87%. The percentage of cost of revenues for the Power and Electromechanical segment decreased half a percentage point despite a significant royalty expense paid related to the revenues of the ICE switch recognized in the first quarter of 2018. The royalty rate is higher on the first \$1.4 million of ICE product revenues. While the cost of revenues decreased as a percentage of sales, the total cost of revenues in the Power and Electromechanical segment increased due to higher sales volume in 2018 compared to 2017. The Company expects improved cost of revenues as a percentage of revenues in 2019 as a result of increased sales of higher margin products and better mix of integration and service projects.

*2017 compared to 2016*

The cost of revenues as a percentage of revenue increased to 67% during the year ended December 31, 2017 from 63% during the year ended December 31, 2016. The increase in the cost of revenues as a percentage of revenue was due to a less favorable product mix particularly in the Energy segment in 2017 including a decreased volume of higher margin GasPT sales. The Power and Electromechanical segment also had a slight decrease in its gross margin

associated with product mix. As a result of the less favorable product mix in the Energy segment, for the year ended December 31, 2017, the cost of revenues as a percentage of revenue increased 11 percentage points from 58% to 69%. Cost of revenues in the Energy segment were lower in 2017 compared to 2016 due to lower sales volumes. The percentage of cost of revenues for the Power and Electromechanical segment increased from 65% to 66%. In addition to the increased cost of revenues percentage, costs of revenues in the Power and Electromechanical segment increased due to higher sales volume in 2017 compared to 2016.

Selling, General and Administrative Expense

Selling, General, and Administrative Expense by Segment (Dollars in thousands)	For the Years Ended December 31,					
	2018	Percent Change	2017	Percent Change	2016	
Power and Electromechanical	\$17,712	7.9 %	\$16,415	(2.0 )%	\$16,756	
Energy	13,687	8.7 %	12,588	4.8 %	12,006	
Other	4,942	0.5 %	4,918	(10.2 )%	5,477	
Total SG&A	\$36,341	7.1 %	\$33,921	(0.9 )%	\$34,239	

Selling, General and Administrative (SG&A) expenses includes such items as wages, commissions, consulting, general office expenses, business promotion expenses and costs of being a public company including legal and accounting fees, insurance and investor relations. SG&A expenses are generally associated with the ongoing activities to reach new customers, promote new product lines including ICE, GasPT, VE, and new product introductions.



Table of Contents*2018 compared to 2017*

During the year ended December 31, 2018, SG&A increased \$2.4 million compared to the year ended December 31, 2017. The increase for the year is due to increased costs in both the Power and Electromechanical and Energy segments primarily due to higher selling expenses on the higher sales within both segments, higher professional fees in the Energy segment and higher SG&A expenses at the new Houston facility. Also contributing to the higher SG&A expenses in the Energy segment in 2018 were increased marketing expenses related to the World Gas Conference. SG&A decreased to 38% of total revenue in 2018 compared to 41% of total revenue during the year ended December 31, 2017 due to economies of scale on 16% higher consolidated revenues.

*2017 compared to 2016*

During the year ended December 31, 2017, SG&A decreased \$0.3 million compared to the prior-year comparative period. The decrease for the year is largely due to \$0.6 million in severance costs incurred in 2016 in the Power and Electromechanical segment for the transition of the R&D team to CUI-Canada and for various positions within the Energy segment during the year ended December 31, 2016 compared to severance costs in 2017 primarily in the Energy segment that were less than \$0.3 million. The increase in the Energy segment is due to the severance costs at Orbital-UK and increased advertising expense in the Energy segment of \$0.2 million. The remaining decreases in SG&A during the year ended December 31, 2017 were associated with various cost saving measures begun in the second quarter of 2017 and due to the lower sales volume in 2017 compared to 2016. SG&A increased to 41% of total revenue in 2017 compared to 40% of total revenue during the year ended December 31, 2016.

Depreciation and Amortization

Depreciation and Amortization by Segment (Dollars in thousands)	For the Years Ended December 31,				
	2018	Percent Change	2017	Percent Change	2016
Power and Electromechanical	\$1,480	(1.7 )%	\$1,505	4.2 %	\$1,445
Energy	1,525	13.4 %	1,345	(4.0 )%	1,401
Other	—	— %	—	(100.0)%	2
Total depreciation and amortization	\$3,005	5.4 %	\$2,850	0.1 %	\$2,848

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. The above table includes \$0.9 million, \$0.7 million, and \$0.5 million of depreciation and amortization, in 2018, 2017 and 2016, respectively that was included in cost of revenues in the Power and Electromechanical segment. The increase in depreciation and amortization included in cost of revenues was due to increased allocation of depreciation and amortization to cost of revenues at CUI Inc. and CUI-Canada.

*2018 compared to 2017*

Depreciation and amortization increased slightly for the year ended December 31, 2018 compared to the comparable period in 2017. The decrease in depreciation and amortization at the Power and Electromechanical segment was due to the V-Infinity trademark becoming fully amortized in 2017 partially offset by higher product certification amortization in 2018 compared to 2017. The decrease in the Power and Electromechanical segment was more than offset by increased depreciation and amortization in the Energy segment due to generally increased foreign currency translation rates in 2018 compared to 2017 and increased software amortization due to Orbital's new ERP system going into service in 2018.

*2017 compared to 2016*

Depreciation and amortization increased slightly for the year ended December 31, 2017 compared to the comparable period in 2016. The increase in depreciation and amortization at the Power and Electromechanical segment was due to additional product certification investments in 2017, which was partially offset by decreased depreciation and amortization at Orbital-UK due to generally lower foreign currency rates in 2017 compared to 2016.

Table of ContentsResearch and Development

Research and Development by Segment (Dollars in thousands)	For the Years Ended December 31,				
	2018	Percent Change	2017	Percent Change	2016
Power and Electromechanical	\$2,647	14.9 %	\$2,303	23.0 %	\$1,873
Energy	155	(30.2 )%	222	55.2 %	143
Other	—	— %	—	— %	—
Total research and development	\$2,802	11.0 %	\$2,525	25.2 %	\$2,016

Research and development costs are associated with the continued research and development of new and existing technologies including advanced power technologies, ICE, GasPT, VE Technology and other products. Research and development expense was down in the Energy segment and up in the Power and Electromechanical segment for year ended December 31, 2018 compared to the year ended December 31, 2017 and up in both segments in 2017 compared to 2016. Research and development activities were primarily focused on the ICE technology in Power and Electromechanical Segment and GasPT and VE technologies in the Energy segment.

Impairment Loss

As of December 31, 2018, management calculated an excess carrying amount for its Orbital-UK goodwill resulting in the remaining goodwill at Orbital-UK being written off, which was a \$3.1 million impairment. As of May 31, 2018, management performed its annual assessment of goodwill impairment which resulted in a \$1.3 million impairment. As of December 31, 2017, management calculated an excess carrying amount for its Orbital-UK goodwill resulting in a \$3.2 million impairment. See Note 2 Summary of Significant Accounting Policies - Indefinite-Lived Intangibles and Goodwill Assets for information on the impairment to goodwill in 2018 and 2017.

Provision (Credit) for Bad Debt

Provision (Credit) for Bad Debt by Segment (Dollars in thousands)	For the Years Ended December 31,				
	2018	Percent Change	2017	Percent Change	2016
Power and Electromechanical	\$20	566.7 %	\$3	(93.9 )%	\$49
Energy	13	(181.3 )%	(16)	(136.4 )%	44
Other	—	— %	—	— %	—
Total provision (credit) for bad debt	\$33	(353.8 )%	\$(13)	(114.0 )%	\$93

Provision (credit) for bad debt in 2018, 2017 and 2016 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. Credits to the provision for bad debt are generated when aged receivables are collected at a higher rate than was previously reserved. This results in the calculated reserve being reduced.

Table of ContentsOther Income (Expense)

(Dollars in thousands)	For the Years Ended December 31,					
	2018	Percent		2017	Percent	
		Change			Change	
Foreign exchange (loss) gain	\$(461)	(768.1)%	\$69	(116.3)%	\$(423)	
Interest income	35	75.0 %	20	25.0 %	16	
Non-cash gain and unrealized gain on derivative liability	129	16.2 %	111	(1.8 )%	113	
Other, net	46	35.3 %	34	(20.9 )%	43	
Total other (expense) income	\$(251)	(207.3)%	\$234	(193.2)%	\$(251)	

Investment Income

During the three months ended March 31, 2016, the Company's investment in TPI was exchanged for a note receivable from TPI of \$0.4 million, which was the carrying value of the investment, earning interest at 5% per annum, due June 30, 2019. The Company recorded interest income on the note of \$17 thousand, \$18 thousand and \$19 thousand for the years ended December 31, 2018, 2017 and 2016, respectively. The interest receivable is settled on a quarterly basis via a non-cash offset against the finders-fee royalties earned by TPI on GasPT sales. Any remaining finders-fee royalties balance is offset against the note receivable quarterly. Management reviewed the note receivable for non-collectability as of December 31, 2018 and concluded that no allowance was necessary. For more information on this investment, see Note 2 Summary of Significant Accounting Policies - Investment and Note Receivable, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

Interest Expense

The Company incurred \$0.5 million, \$0.5 million, and \$0.5 million of interest expense during 2018, 2017 and 2016, respectively. Interest expense is for interest on the secured note, secured promissory note, and line of credit and overdraft facility. The Company's secured note was repaid in December 2018 as part of the Company's sale-leaseback transaction.

Provision (benefit) for taxes

2018 compared to 2017

The Company is subject to taxation in the U.S., various state and foreign jurisdictions. We continue to record a full valuation allowance against the Company's U.S. net deferred tax assets as it is "not more likely than not," that the Company will realize a benefit from these assets in a future period. During 2018, the Company provided for a full valuation allowance against the Company's U.K. net deferred tax assets as it is not "more likely than not," that the Company will realize a benefit from these assets in a future period. In future periods, tax benefits and related deferred tax assets will be recognized when management concludes realization of such amounts is "more likely than not." In 2018, a net benefit of \$0.2 million, was recorded to the income tax provision for the year ended December 31, 2018 resulting in an effective tax rate of 1.2% compared to a \$1.6 million tax benefit for the year ended December 31, 2017 and an effective tax rate of 11.3%. For the year ended December 31, 2018, the income tax benefit primarily represents benefits from foreign net operating losses partially offset by state minimum taxes and taxes on profitable foreign jurisdictions. For the year ended December 31, 2017, the income tax benefit primarily represents benefits from foreign net operating losses and the \$0.9 million benefit resulting from the rate changes passed in the December 2017 Tax Act, partially offset by state minimum taxes and taxes on a profitable foreign jurisdiction. As of December 31, 2018, we have federal, state and foreign net operating loss carry forwards of approximately \$67.8 million, \$62.8 million, and \$2.2 million, respectively, and for which the federal and state net operating loss carry-forwards will expire between 2019 and 2038.

*2017 compared to 2016*

In 2017, a net benefit of \$1.6 million, was recorded to the income tax provision for the year ended December 31, 2017 resulting in an effective tax rate of 11.3% compared to a \$38 thousand tax expense for the year ended December 31, 2016 and an effective tax rate of (0.5)%. For the year ended December 31, 2017, the income tax benefit primarily represents benefits from foreign net operating losses and the \$0.9 million benefit resulting from the rate changes passed in the December 2017 Tax Act, partially offset by state minimum taxes and taxes on a profitable foreign jurisdiction, whereas, for the year ended December 31, 2016, the income tax provision primarily represents state minimum taxes and taxes on a profitable foreign jurisdiction.

Table of Contents

Consolidated Net Loss

*2018 compared to 2017*

The Company had a net loss of \$17.3 million for the year ended December 31, 2018 compared to a net loss of \$12.6 million for the year ended December 31, 2017. The increase in the consolidated net loss for 2018 was primarily the result of higher goodwill impairments, higher inventory reserves and impairment of deposits and other assets.

*2017 compared to 2016*

The Company had a net loss of \$12.6 million for the year ended December 31, 2017 compared to a net loss of \$7.3 million for the year ended December 31, 2016. The increase in the consolidated net loss for 2017 was primarily the result of lower revenues coupled with increased cost of revenues due to a less favorable product mix in 2017 compared to 2016, and an impairment to goodwill of \$3.2 million.

Effect of Inflation and Changing Prices

The Company believes, that during fiscal years ended December 31, 2018, 2017 and 2016, 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.

Recently Adopted and Recently Issued Accounting Standards

Information on recently adopted and recently issued accounting standards is included in Note 2 Summary of Significant Accounting Policies - Recent Accounting Pronouncements, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

**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 four principal currencies: the U.S. dollar, the British pound sterling, the Canadian dollar and the Japanese yen. These currencies operate primarily as the functional currency for the Company's U.S., UK, Canadian and Japanese operations, respectively. Cash is managed centrally within each of the four 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., UK, Canada 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.



Table of Contents

The table below details the percentage of revenues and expenses by the four principal currencies for the fiscal years ended December 31, 2018, 2017 and 2016:

	U.S. Dollar		British Pound Sterling		Canadian Dollar		Japanese Yen	
Fiscal year ended December 31, 2018								
Revenues	82	%	16	%	—	%	2	%
Operating expenses	59	%	32	%	8	%	1	%
Fiscal year ended December 31, 2017								
Revenues	80	%	19	%	—	%	1	%
Operating expenses	61	%	30	%	8	%	1	%
Fiscal year ended December 31, 2016								
Revenues	72	%	27	%	—	%	1	%
Operating expenses	67	%	25	%	7	%	1	%

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.

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 compile a quarterly analysis of the investment portfolio when applicable for internal use.

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 revenue concentrations with large customers, which include a large concentration of trade receivables and revenues in the United Kingdom.

Table of Contents

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

This item includes the following financial information:

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	52
<u>Consolidated Balance Sheets</u>	53
<u>Consolidated Statements of Operations</u>	54
<u>Consolidated Statements of Comprehensive Income and (Loss)</u>	55
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	56
<u>Consolidated Statements of Cash Flows</u>	57
<u>Notes to Consolidated Financial Statements</u>	58 – 96
<u>Quarterly Financial Data</u>	97

Table of Contents

**Report of Independent Registered Public Accounting Firm**

Stockholders and Board of Directors

CUI Global, Inc.

Tualatin, Oregon

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of CUI Global, Inc. and Subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income and (loss), changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, 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) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, 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 18, 2019 expressed an unqualified opinion thereon.

**Adoption of New Accounting Standard**

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method for the recognition, measurement, presentation and disclosure of revenue in the year ended December 31, 2018 due to the adoption of ASC 606, *Revenue from Contracts with Customers*.

## **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. 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, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Perkins & Company, P.C.

We have served as the Company's auditor since 2014.

Portland, Oregon

March 18, 2019

Table of Contents**CUI Global, Inc.****Consolidated Balance Sheets****As of December 31, 2018 and 2017**

	December 31, 2018	December 31, 2017
(In thousands, except share and per share data)		
Assets:		
Current Assets:		
Cash and cash equivalents	\$3,979	\$12,646
Trade accounts receivable, net of allowance of \$167 and \$135, respectively	14,416	10,833
Inventories, net of allowance of \$2,495 and \$946, respectively	13,042	13,892
Contract assets	1,744	2,299
Note receivable, current portion	318	13
Prepaid expenses and other	1,982	1,593
Total current assets	35,481	41,276
Property and equipment, less accumulated depreciation of \$4,234 and \$4,155, respectively	5,973	11,242
Goodwill	13,089	17,641
Other intangible assets, less accumulated amortization of \$13,190 and \$11,900, respectively	13,861	15,568
Restricted cash	523	—
Note receivable, less current portion	—	317
Convertible notes receivable	655	—
Deposits and other assets	585	1,865
Total assets	\$70,167	\$87,909
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts payable	\$6,480	\$5,110
Short-term overdraft facility	1,344	—
Line of credit	979	—
Mortgage note payable, current portion	—	94
Accrued expenses	4,851	4,186
Contract liabilities	2,226	8,829
Refund liabilities	2,417	695
Deferred gain on leaseback, current portion	289	—
Total current liabilities	18,586	18,914
Long term note payable, related party	5,304	5,304
Long term mortgage note payable, less current portion	—	3,256
Derivative liability	—	356
Deferred tax liabilities	1,922	2,414
Deferred gain on leaseback, less current portion	2,599	—

Other long-term liabilities	218	179
Total liabilities	28,629	30,423
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, par value \$0.001; 10,000,000 shares authorized; no shares issued at December 31, 2018 or December 31, 2017	—	—
Common stock, par value \$0.001; 325,000,000 shares authorized; 28,552,886 shares issued and outstanding at December 31, 2018 and 28,406,856 shares issued and outstanding at December 31, 2017	29	28
Additional paid-in capital	169,898	169,527
Accumulated deficit	(123,993)	(108,559)
Accumulated other comprehensive loss	(4,396 )	(3,510 )
Total stockholders' equity	41,538	57,486
Total liabilities and stockholders' equity	\$70,167	\$87,909

See accompanying notes to consolidated financial statements

Table of Contents**CUI Global, Inc.****Consolidated Statements of Operations****For the Years Ended December 31, 2018, 2017 and 2016**

(In thousands, except share and per share amounts)

	2018	2017	2016
Total revenues	\$96,789	\$83,275	\$86,461
Cost of revenues	67,879	55,406	54,200
Gross profit	28,910	27,869	32,261
Operating expenses:			
Selling, general and administrative	36,341	33,921	34,239
Depreciation and amortization	2,152	2,163	2,366
Research and development	2,802	2,525	2,016
Provision (credit) for bad debt	33	(13	) 93
Impairment of goodwill and intangible assets	4,347	3,155	—
Other operating expenses	13	47	57
Total operating expenses	45,688	41,798	38,771
Loss from operations	(16,778	) (13,929	) (6,510
Other (expense) income	(251	) 234	(251
Interest expense	(502	) (500	) (467
Loss before taxes	(17,531	) (14,195	) (7,228
Income tax (benefit) expense	(206	) (1,606	) 38
Net loss	\$(17,325	) \$(12,589	) \$(7,266
Basic and diluted weighted average number of shares outstanding	28,517,339	22,397,865	20,897,812
Basic and diluted loss per common share	\$(0.61	) \$(0.56	) \$(0.35

See accompanying notes to consolidated financial statements

Table of Contents

**CUI Global, Inc.**

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

**For the Years Ended December 31, 2018, 2017 and 2016**

(in thousands)

	2018	2017	2016
Net loss	\$(17,325)	\$(12,589)	\$(7,266 )
<b>Other comprehensive income (loss)</b>			
Foreign currency translation adjustment	(886 )	2,080	(4,150 )
Comprehensive loss	\$(18,211)	\$(10,509)	\$(11,416)

See accompanying notes to consolidated financial statements



Table of Contents**CUI Global, Inc.****Consolidated Statements of Changes in Stockholders' Equity****For the Years Ended December 31, 2018, 2017 and 2016**

(In thousands, except share amounts)

	Common Stock		Additional	Accumulated	Other	Total
	Shares	Amount	Paid-in	Accumulated	Comprehensive	Stockholders'
			Capital	Deficit	Income	Equity
					(Loss)	
Balance, December 31, 2015	20,806,219	\$ 21	\$ 149,639	\$ (88,704 )	\$ (1,440 )	\$ 59,516
Options granted for services and compensation	—	—	227	—	—	227
Common stock issued for exercises of options	718	—	—	—	—	—
Common stock issued for compensation, royalties, and services payments	109,911	—	308	—	—	308
Net loss for the year ended December 31, 2016	—	—	—	(7,266 )	—	(7,266 )
Other comprehensive loss	—	—	—	—	(4,150 )	(4,150 )
Balance, December 31, 2016	20,916,848	21	150,174	(95,970 )	(5,590 )	48,635
Issuance of common stock, net	7,392,856	7	18,898	—	—	18,905
Common stock issued for exercises of options	245	—	—	—	—	—
Common stock issued for compensation, royalties, and services payments	96,907	—	455	—	—	455
Net loss for the year ended December 31, 2017	—	—	—	(12,589 )	—	(12,589 )
Other comprehensive income	—	—	—	—	2,080	2,080
Balance, December 31, 2017	28,406,856	28	169,527	(108,559 )	(3,510 )	57,486
Cumulative effect of accounting change	—	—	—	1,891	—	1,891
Balance, January 1, 2018, adjusted	28,406,856	28	169,527	(106,668 )	(3,510 )	59,377
Common stock issued for compensation, services, and royalty	146,030	1	371	—	—	372

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

payments

Net loss for the year ended December 31, 2018	—	—	—	(17,325 )	—	(17,325 )
Other comprehensive loss	—	—	—	—	(886 )	(886 )
Balance, December 31, 2018	28,552,886	\$ 29	\$ 169,898	\$(123,993 )	\$ (4,396 )	\$ 41,538

See accompanying notes to consolidated financial statements

Table of Contents**CUI Global, Inc.****Consolidated Statements of Cash Flows****For the Years Ended December 31, 2018, 2017 and 2016**

(In thousands)

	2018	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$(17,325)	\$(12,589)	\$(7,266)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	1,103	1,009	925
Amortization of intangibles	1,902	1,841	1,923
Stock issued and stock to be issued for compensation, royalties and services	229	425	734
Non-cash gain and unrealized gain on derivative liability	(129 )	(111 )	(113 )
Non-cash royalties, net (see Note 2 - Investment and note receivable)	(7 )	(3 )	19
Provision (credit) for bad debt expense	33	(13 )	93
Deferred income taxes	(352 )	(1,767 )	(107 )
Non-cash unrealized foreign currency loss (gain)	246	(362 )	172
Impairment of goodwill and other intangible assets	4,347	3,155	—
Inventory reserves	1,592	138	312
Impairment of deposits and other assets	1,509	—	—
Loss on disposal of assets	13	47	57
(Increase) decrease in operating assets:			
Trade accounts receivable	(3,841 )	(1,150 )	4,432
Inventories	(2,235 )	(411 )	(1,672)
Contract assets	(61 )	591	(1,454)
Prepaid expenses and other current assets	(392 )	(421 )	105
Deposits and other assets	(59 )	(506 )	(25 )
Increase (decrease) in operating liabilities:			
Accounts payable	1,436	(1,163 )	495
Accrued expenses	1,116	(464 )	(518 )
Refund liabilities	852	130	(30 )
Contingent consideration	—	3	(54 )
Contract liabilities	(2,260 )	2,252	1,371
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(12,283)</b>	<b>(9,369 )</b>	<b>(601 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds on sale of building, net	7,720	—	—
Payment for restricted investment	(400 )	—	—
Purchases of property and equipment	(1,042 )	(893 )	(824 )
Proceeds from sale of property and equipment	—	8	27
Investment in other intangible assets	(492 )	(638 )	(850 )

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

Investment in convertible notes receivable	(655 )	—	—
Proceeds from notes receivable	19	39	—
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>5,150</b>	<b>(1,484 )</b>	<b>(1,647)</b>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Proceeds from overdraft facility	19,532	9,782	—
Payments on overdraft facility	(18,122)	(9,782 )	—
Proceeds from line of credit	19,955	22,332	—
Payments on line of credit	(18,976)	(22,332)	—
Payments on capital lease obligations	(3 )	(29 )	(41 )
Payments on mortgage note payable	(3,350 )	(89 )	(85 )
Payment to closeout derivative liability	(227 )	—	—
Payments on contingent consideration	(45 )	(61 )	(59 )
Proceeds from sales of common stock, net of offering costs	—	18,905	—
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(1,236 )</b>	<b>18,726</b>	<b>(185 )</b>

Effect of exchange rate changes on cash	225	156	(217 )
Net (decrease) increase in cash, cash equivalents and restricted cash	(8,144 )	8,029	(2,650)
Cash, cash equivalents and restricted cash at beginning of year	12,646	4,617	7,267
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR</b>	<b>\$4,502</b>	<b>\$12,646</b>	<b>\$4,617</b>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Income taxes paid	\$237	\$158	\$211
Interest paid, net of capitalized interest	\$520	\$500	\$469

**SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:**

Common stock issued and issuable for royalties payable pursuant to product agreements, related party	\$14	\$16	\$38
Common stock issued and to be issued for consulting services and compensation in common stock	\$358	\$439	\$270
Exchange of investment in TPI in return for note receivable (Note 2)	\$—	\$—	\$385
Accrued property and equipment purchases at December 31	\$8	\$27	\$45
Accrued investment in other intangible assets at December 31	\$55	\$15	\$48
Assets acquired via capital leases	\$—	\$—	\$19

See accompanying notes to consolidated financial statements

Table of Contents

**CUI Global, Inc.**

**Notes to Consolidated Financial Statements**

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

CUI Global Inc. (CUI Global) is a platform company composed of two segments, the Power and Electromechanical segment and the Energy segment.

The Power and Electromechanical segment is made up of the wholly owned subsidiaries: CUI Inc. (CUI), based in Tualatin, Oregon; CUI Japan, based in Tokyo, Japan; and CUI-Canada, based in Toronto, Canada. All three subsidiaries are providers of power and electromechanical components including power supplies, transformers, converters, connectors and industrial controls for Original Equipment Manufacturers (OEMs).

The Power and Electromechanical segment defines its product offerings into two categories: **power supply solutions**, which consists of external and embedded ac-dc power supplies, dc-dc converters, and advanced power supply solutions including the ICE products, and **components** including connectors, speakers, buzzers, and control solutions including encoders and sensors. These offerings provide a technology architecture that addresses power and related accessories to industries as broadly ranging as consumer electronics, medical and defense, among others.

The Company's Energy segment is made up of Orbital Gas Systems Ltd. (Orbital-UK) and Orbital Gas Systems, North America, Inc. (Orbital North America), collectively referred to as Orbital Gas Systems (Orbital). This business segment was formed when in April 2013, CUI Global acquired 100% of the capital stock of Orbital-UK, 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. In January 2015, CUI Global formed and opened Orbital Gas Systems, North America, Inc. a wholly owned subsidiary, to represent the Energy segment in the North American market. GasPT® and VE® *Technology* products are sold through Orbital.

During the year ended December 31, 2018, total revenues at CUI Global consisted of 79% from the Power and Electromechanical segment and 21% from the Energy segment.



Table of Contents

**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 cost-to-cost 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.

Company Conditions

The continued delays in shipment of GasPTs on a significant project due to governmental delays and the related slower than expected acceptance of this new disruptive technology has caused a delay in our expected profitability.

The Company had losses of \$17.3 million and cash used in operating activities of \$12.3 million during the year ended December 31, 2018. As of December 31, 2018, our accumulated deficit is \$124.0 million.

Management believes the Company's present cash flows will not enable it to meet its obligations for twelve months from the date these financial statements are available to be issued. However, management has developed a plan to address this issue. The plan included obtaining a new long-term financing in the form of a new line of credit, and utilizing the cash received from our recent sale/leaseback of our Tualatin headquarters. As part of this plan the Company has obtained a firm commitment from Bank of American for a \$10.0 million credit facility. The new line of credit is expected to close in April of 2019. For more information on the Company's new line of credit, see Note 16 Subsequent Events. In addition, as of December 31, 2018, the Company has unused availability of \$2.0 million on its current line of credit and unused availability of \$0.6 million under its Overdraft Facility. However, our new credit facility will replace these facilities. Including our cash balance, we further have \$16.9 million of positive working capital primarily related to trade accounts receivable and our inventory less current liabilities that we will manage in the next twelve months to create positive cash flow. Considering the above factors and the new line of credit, management believes it is probable that management's plans will be achieved and will enable the Company to meet its obligations for the twelve-month period from the date the financial statements are available to be issued.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of CUI Global, Inc. and its wholly owned subsidiaries CUI Inc., CUI Japan, CUI-Canada, CUI Properties, LLC, Orbital Gas Systems, Ltd. and Orbital Gas Systems, North America, Inc. hereafter referred to as the “Company.” 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 gener