CUI Global, Inc.
Form 10-K
March 14, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

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)

Colorado	(3670)	84-1463284
(State or jurisdiction of	(Primary Standard Industrial	(I.R.S. Employer

incorporation or organization) Classification Code Number) Identification No.)

20050 SW 112 th 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 x 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 x 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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x 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 x Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ Yes x 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, 2015), was approximately $71,589,371. Shares of common stock beneficially held by each executive officer and director as well as 5% holders as of June 30, 2015 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 11, 2016, the registrant had 20,878,883 shares of common stock outstanding and no shares of Preferred Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

PART I

Item 1. Business

Corporate Overview and Our Products

CUI Global, Inc. (‘‘CUI Global’’ or “The Company”) 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. 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. The Company has subsidiaries in 4 countries, including the United States. 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 Japan, and CUI-Canada - Subsidiaries

CUI, Inc., is based in Tualatin, Oregon, CUI Japan is based in Tokyo, Japan and CUI-Canada, acquired in March 2015, is based in Toronto, Canada (collectively referred to as “CUI”). These three subsidiaries are providers of electronic components including power supplies, transformers, converters, connectors and industrial controls for Original Equipment Manufacturers (OEMs). Since its inception in 1989, CUI has been delivering quality products, extensive application solutions and superior personal service. CUI's solid customer commitment and honest corporate message are a hallmark in the industry.

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

Power Supply Units

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

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

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

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 datacom, server and storage applications. As one of the early adopters of digital power, CUI continues to be an industry leader in this space. With the recent release of the NDM3Z 90A POL module, CUI set a benchmark for power output in a point-of-load (POL) module, addressing the needs of the most advanced ICs on the market. As a founding member of the Architects of Modern Power (AMP) Group® power consortium partnered with Ericsson Power Modules and Murata, CUI is driving change in the industry to ensure supply chain security and push technology innovation for tomorrow’s applications. The acquisition of certain assets of Tectrol, Inc. (now CUI Canada) in 2015 now 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 working to reduce their approved vendor list, the capability to deliver a full system solution is becoming critical.

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

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

Components

AMT ® Encoder

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

ISO 9001:2008 Certification

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

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

Energy Segment

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

Effective April 1, 2013, CUI Global closed on a share purchase agreement to acquire 100% of the equity interest in Orbital Gas Systems Limited, a company organized under the laws of England and Wales (‘‘Orbital’’), from Orbital’s sole shareholder. In 2015, the Company started up a North America subsidiary to its Orbital business.

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

GasPT®

Through an exclusive licensing contract with DNV-GL (formerly: GL Industrial Services UK, Ltd.) (formerly: British-based Advantica, Ltd.)(‘‘GL’’), CUI Global owns exclusive rights to manufacture, sell and distribute a Gas Quality Inferential Measurement Device (GasPT) designed by GL on a worldwide basis, now marketed as the GasPT. The Company has minimum commitments under this licensing contract.

The natural gas inferential metering device, the GasPT, is a low cost solution to measuring natural gas quality. It can be connected to a natural gas system to provide a fast, accurate, close to real time measurement of the physical properties, such as thermal conductivity, speed of sound and carbon dioxide content. From these measurements it infers an effective gas mixture comprising four components: methane, propane, nitrogen, and measured carbon dioxide and then uses ISO6976 to calculate the gas quality characteristics of calorific value (CV), Wobbe index (WI), relative density (RD), and compression factor (Z). An ISO, International Organization for Standardization, is a documented agreement containing technical specifications or other precise criteria to be used consistently as rules, guidelines or definitions of characteristics to ensure that materials, products, processes and services are fit for their purpose.

This new and innovative technology has been certified for use in fiscal monitoring by Ofgem in the United Kingdom, the Polish Oil & Gas Company Department of Testing and Calibration in Warsaw, NOVA Chemical/TransCanada in Canada, the Pipeline Research Counsel International (PRCI) in the US and NMi & The International Organization of Legal Metrology (‘‘OIML’’) for SNAM RETE in Italy. At present, there is no equivalent product competition. There are instruments like gas chromatographs (‘‘GC’’), but they are slow, complicated to use and as much as five times the price of the GasPT.

By way of example, in the case of SNAM RETE, the Italian gas transmission company, there are 13 natural gas injection points for the SNAM RETE system. Those injection points will continue to use GC’s for monitoring. On the other hand, there are 2,500 customer access points, servicing 7,500 customers. Those would include city gates, large industrial users, power generation plants and others. All of those customer access ports would be applicable for the GasPT Technology.

In addition, there are currently 50,000 gas-fired turbines in operation worldwide. Each of those turbines is subject to variances in natural gas quality. Depending on the quality of the gas, by using our GasPTi Technology, those very expensive machines can be tuned to run more efficiently and therefore longer with much cleaner emissions. Currently, because of the delay in information from the GC's, such tuning cannot be effectively accomplished. It is this greater efficiency that has lead National Grid in the UK to change its entire turbine control strategy, cancelling orders for several GC's and, in October 2013, replacing those GC's with an order for eight (8) GasPTi devices specifically designed for natural gas-fired turbine control.

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

In January 2012 the company entered into a five-year, 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. SOCRATE is the ‘‘vendor-of-choice’’ for SNAM RETE GAS (‘‘SRG’’) and was referred to the company by SRG. SOCRATE continues to be involved in negotiations with SRG relative to both the 2010 Technical Upgrade of Metering Facilities and 2011/2012 New Capacity and Implementation Plan. In conjunction with those two initiatives, SRG transmission system has concluded 24 months of in-field testing with six (6) GasPTi units.

On September 3, 2015, SRG issued a public tender for the installation of a minimum of 3,300 metering devices to change the way SRG monitors its facilities and assets. After a several month bidding process, Orbital and its partner, SOCRATE were awarded the initial purchase order (400 units) pursuant to the tender.

Following the acquisition of Orbital and the transfer of gas operations to Orbital-GS, the company has entered into a series of 42 Distribution Agreements with internationally recognized entities in the natural gas industry. These agreements are designed to supplement and enhance our previously announced and continuing agreements with BENCHMARK, IVES EQUIPMENT, SOCRATE and others.

VE-Probe and VE *Technology*

On July 30, 2013 our Orbital subsidiary acquired exclusive worldwide rights to manufacture, sell, design, and otherwise market the VE-Probe and VE *Technology* from its United Kingdom-based inventor, EnDet Ltd. The agreement gives Orbital exclusive and sole control of all technology related to its revolutionary GasPT and GasPTi 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-Probe, which is able to provide a gas sample from a high pressure transmission line in less than two seconds, Orbital has created the GasPTi metering system.

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

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

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In addition, the VE *Technology*, in combination with applicable detectors, allows us to produce trace-element detectors for such components as mercury (Hg), moisture ($H_2 0$), and hydrogen sulfide ($H_2 S$) 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.

Anticipated Growth Strategy for Our Electromechanical Product Line

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

- Developing collaborative relationships with our customers by seeking to meet their design needs in a timely and cost effective manner.
- Developing new technologies and expanded manufacturing capabilities as needed.
- Growing our global sales and distribution through our primary international distribution channel, a prominent international sales and distribution strategic partner that ships product to more than 170 countries worldwide from a single location in the United States.
- Directing our marketing efforts through one of our two channels, either directly with the sales representative who understands the targets in the area or through our distributor with partnership marketing.
- Attending strategic trade shows to grow our brand presence for our proprietary products. Because of our growing recognition in innovation, we need to be where the heads of the industries are, particularly at industry trade shows.

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

Anticipated Growth Strategy for GasPT®

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

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Additionally, our wholly owned subsidiary, Orbital Gas Systems, Ltd., the largest specialty gas engineering company in England, introduced the combined GasPT unit and V-Probe to National Grid, the largest gas transmission/distribution company in the UK. We entered into a second five-year, 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.

According to the latest industry analysts (including *MarketsandMarkets*), the global GC market reached $2,583.6 million in 2014 and is poised to grow at a CAGR of 6.9% from 2014 to 2019, reaching $3,605.1 million by 2019. Admittedly, that market is mature and is dominated by ‘‘aftermarket and accessories’’ sales. In contrast, the GasPT Technology is less expensive, more efficient and dramatically faster than any available GC. It provides almost real-time monitoring without the need for a large enclosure, carrier gas and, most significantly, regular technical support and calibration. Taking all of those factors into account, it is our intention that the GasPT Technology will rapidly and effectively penetrate a large segment of that $2.5+ billion market.

Acquisition Strategy:

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

Research and Development Activities

Research and development costs for CUI Global were approximately $1.8 million, $1.3 million and $0.9 million for the years ended December 31, 2015, 2014 and 2013, respectively. Research and development costs are related to the various technologies for which CUI Global has acquired licensing rights or is developing internally. The expenditures for research and development have been directed primarily towards the further development of Novum Advanced Power technologies including digital POLs, AMT Capacitive Encoders and towards the development of the GasPT and VE Probe technologies. The Company expects that research and development expenses will continue during 2016 as the Company continues to expand its product offering and technologies due to market acceptance and customer integration.

Employees

As of December 31, 2015, the Company, together with its consolidated subsidiaries, had 352 employees. As of December 31, 2015, 78 of its employees in Canada are represented by a labor union. The increase in the number of employees compared to the 200 reported as of December 31, 2014 is primarily a result of the 2015 CUI Canada acquisition and the 2015 startup of Orbital Gas Systems Ltd., North America. The Company considers its relations with its employees to be good. The Company plans to add additional staff as needed to handle all phases of its business.

Intellectual Property License Evolution

AMT ® encoder technology:

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

Novum ® Digital POL technology

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

GasPT® technology

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

VE-Probe and VE *Technology*

On July 30, 2013 our Orbital subsidiary acquired exclusive worldwide rights to manufacture, sell, design, and otherwise market the VE-Probe and VE *Technology* from its United Kingdom-based inventor, EnDet Ltd. The agreement gives Orbital exclusive and sole control of all technology related to its GasPT and GasPTi natural gas metering systems.

Intellectual Property Protection

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

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

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

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

Competitive Business Conditions

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

CUI is becoming more recognized in the power supply market and has differentiated itself through technology with a foundation of legacy and product quality. As of December 31, 2015, our power and electromechanical segment accounted for approximately 67.5% of our revenues and our Energy segment accounted for approximately 32.5% of our revenues. We have added new products and technologies that will provide us the opportunity to compete outside of price and more on innovative technology and strategic partnerships.

From our portfolio of full-featured digital point-of-load dc-dc converters, to our line of Platinum-rated front-end power supplies, we believe that we are ahead of the 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-Probe, competes in a mature industry with established competitors. There are significant investments being made globally into the natural gas extraction and transportation infrastructure. Our natural gas quality measurement system is a comparably low cost solution to measuring natural gas quality as compared to our best competition. It can be connected to a natural gas system to provide a fast, accurate, close to real time measurement of the physical properties, such as thermal conductivity, speed of sound and carbon dioxide content. From these measurements it infers an effective gas mixture comprising four components: methane, propane, nitrogen and measured carbon dioxide and then uses ISO6976 to calculate the gas quality characteristics of calorific value (CV), Wobbe index (WI), relative density (RD) and compression factor (Z). This technology has been certified for use in fiscal monitoring by Ofgem in the United Kingdom and SNAM RETE in Italy. At present, there is no equivalent product competition. There are instruments like gas chromatographs, but they are slower and more complicated to use and as much as double the price of the GasPT system.

Philanthropic Philosophy

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

Item 1A. Risk Factors

RISK FACTORS

Our business is subject to various risks and uncertainties. Investors should read carefully the following factors as well as the cautionary statements referred to in ‘‘Forward-Looking Statements’’ herein. If any of the risks and uncertainties described below or elsewhere in this annual report on Form 10-K actually occur, the Company's business, financial condition or results of operations could be materially adversely affected.

Risks Related to Our Business and Products

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

Historically, on an annual basis, we have not generated sufficient revenues from operations to self-fund our capital and operating requirements. For the year ended 2015, we had a net loss of $6.0 million and our accumulated deficit as of December 31, 2015 was $88.7 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, 2015, we had a net loss of $6.0 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 electromechanical parts distribution business. In recent years, we have focused our business on the acquisition, development and commercialization of new and innovative electronic technologies/products. We may not be successful in acquiring technologies that are commercially viable. We may fail to successfully develop or commercialize technologies that we acquire. Research, development and commercialization of such acquired technologies may disproportionately divert our resources from our other business activities.

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

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

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

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

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

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

Our revenues depend on key customers and suppliers.

The Company's major product lines in 2015, 2014 and 2013 were power and electromechanical products and natural gas infrastructure and high-tech solutions.

During 2015, over 31% of revenues were derived from two customers, Digikey Electronics at 20%, and National Grid at 11%. During 2014, 46% of revenues were derived from two customers, Digikey Electronics at 30%, and National Grid at 16%. During 2013, 50% of revenues were derived from two customers, Digikey Electronics at 33%

and National Grid at 17%.

At December 31, 2015, of the gross trade accounts receivable totaling approximately $14.8 million, 11% was due from one customer: National Grid. At December 31, 2014, of the gross trade accounts receivable totaling approximately $10.2 million, 34% was due from two customers in the Energy segment: National Grid at 19% and Scotia Gas Networks plc at 15% and 10% was from a customer in the Power and Electromechanical segment: Digikey Electronics

During 2014, the Company had one supplier concentration of 11% 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 25% and 28%, respectively for the year ended December 31, 2015 and 34% and 54%, respectively for the year ended December 31, 2014.

There is no assurance that we will continue to maintain all of our existing key customers in the future. Should we, for any reason, discontinue our business relationship with any one of these key customers, the impact to our revenue stream would be substantial. For additional information on our concentrations, see note 17 – 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 electronic component products through distributors and we expect that sales through these distributors will represent a substantial portion of our revenues for the foreseeable future. Our ability to expand our distribution channels depends in part on our ability to educate our distributors about our products, which are complex. Many of our distributors have established relationships with our competitors. If our distributors choose to place greater emphasis on products and services of their own or those offered by our competitors, our ability to grow our business and sell our products may be adversely affected. If our distributors do not effectively market and sell our products, or if they fail to meet the needs of our customers, then our ability to grow our business and sell our products may be adversely affected. The loss of one or more of our larger distributors, 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.

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

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

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We also expect competition to intensify in the future. For example, the market for our electronic components and our inferential natural gas monitoring device, the 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 recent acquisitions into our own business model and we expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions. These transactions could be material to our financial condition and results of operations. The process of integrating an acquired company, business or technologies may create unforeseen operating difficulties and expenditures. The areas where we face risks include:

- implementation or remediation of controls, procedures and policies of the acquired company;
- diversion of management time and focus from operating our business to acquisition integration challenges;
- coordination of product, engineering and sales and marketing functions;
- transition of operations, users and customers into our existing customs;
- cultural challenges associated with integrating employees from the acquired company into our organization;
- retention of employees from the businesses we acquire;
- integration of the acquired company’s accounting, management information, human resource and other administrative systems;
- liability for activities of the acquired company before the acquisition, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities;
- litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former shareholders, or other third parties;
- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries;
- failure to successfully further develop the acquired technologies; and
- other as yet unknown risks that may impact our business.

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

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

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

As of December 31, 2015, the Company, together with its consolidated subsidiaries, had approximately 350 full-time employees, which is an increase of approximately 150 from the prior year-end. We expect to experience significant growth in the number of our employees and the scope of our operations. To manage our anticipated future growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Also, our management may need to divert a disproportionate amount of its attention away from our day-to-day activities and devote a substantial amount of time to managing these growth activities. Due to our limited resources, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel, which may result in weaknesses in our infrastructure, give rise to operational mistakes, loss of business opportunities, loss of employees and reduced productivity among remaining employees. The physical expansion of our operations may lead to significant costs and may divert financial resources from other projects, such as the development of new products. If our management is unable to effectively manage our expected growth, our expenses may increase more than expected, our ability to generate or increase our revenue could be reduced and we may not be able to implement our business strategy. Our future financial performance and our ability to commercialize new products including the GasPT, VE, IRIS, and Novum advanced power products and compete effectively will depend, in part, on our ability to effectively manage any future growth.

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

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

- varying demand for our products due to the financial and operating condition of our distributors and their customers, distributor inventory management practices and general economic conditions;
- inability of our contract manufacturers and suppliers to meet our demand;
- success and timing of new product introductions by us and the performance of our products generally;
- announcements by us or our competitors regarding products, promotions or other transactions;
- costs related to responding to government inquiries related to regulatory compliance;
- our ability to control and reduce product costs;

· changes in the manner in which we sell products;

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- volatility in foreign exchange rates, changes in interest rates and/or the availability and cost of financing or other working capital to our distributors and their customers; and
- the impact of write downs of excess and obsolete inventory.

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

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

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

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

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

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

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

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

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

We have sales, development and manufacturing resources in Japan. The risk of earthquakes, typhoons and other natural disasters in this geographic area is significant due to the proximity of major earthquake fault lines. Despite precautions taken by us and our third-party providers, a natural disaster or other unanticipated problems, at our location in Japan or a third-party provider could cause interruptions in the products that we provide. 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 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 electronic products are complex and have contained and may contain undetected defects or errors, especially when first introduced or when new versions are released. Defects in our products may lead to product returns and require us to implement design changes or updates.

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

- expenditure of significant financial and product development resources in efforts to analyze, correct, eliminate or work around errors or defects;
- loss of existing or potential customers or distributors;
- delayed or lost revenue;
- delay or failure to attain market acceptance;
- delay in the development or release of new products or services;
- negative publicity, which will harm our reputation;
- warranty claims against us;
- 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, Orbital, Orbital Gas Systems, North America, Inc. CUI, Inc., CUI Japan, and CUI Canada 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
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our ability to identify, attract, hire, train, retain and motivate other highly skilled technical, managerial, marketing, sales and customer service personnel.

Risks Related to Our Intellectual Property and Technology

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

We rely primarily on patent, copyright, trademark and trade secret laws, as well as confidentiality and non-disclosure agreements and other methods, to protect our proprietary technologies and know-how. Given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important. Furthermore, there is always the possibility, despite our efforts, that the scope of the protection gained will be insufficient or that an issued patent may be deemed invalid or unenforceable. We license a significant amount of our underlying intellectual property from third parties, i.e., AMT Encoder Technology, Novum Digital Point of Load Technology, 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 and results of operations.

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

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

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

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

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

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

- divert management’s attention;
- result in costly and time-consuming litigation;

- require us to enter into royalty or licensing agreements, which may not be available on acceptable terms, or at all; and
- require us to redesign our products to avoid infringement.

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

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

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

Risks Related to Our Common Stock

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

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

- actual or anticipated variations in our quarterly operating results;
- announcements of technological innovations or new products or services by the Company or our competitors;
- conditions or trends relating to our inferential natural gas monitoring device or electromechanical component technologies;
- changes in the economic performance and/or market valuations of other electromechanical, electronic component and industrial controls related companies;
- conditions or trends relating to the marketing, sale or distribution of electromechanical components and industrial controls to OEM manufacturing customers;
- changes in the economic performance and/or market valuations of other inferential natural gas monitoring device or electromechanical components and industrial electronic component related companies;
- additions or departures of key personnel;

- fluctuations of the stock market as a whole;
- announcements about our earnings that are not in line with expectations;
- announcements by our competitors of their earnings that are not in line with expectations;
- the volume of shares of common stock available for public sale;
- sales of stock by us or by our shareholders;
- short sales, hedging and other derivative transactions on shares of our common stock;

- our ability to retain existing customers, attract new customers and satisfy our customers' requirements;
- general economic conditions;
- changes in our pricing policies;
- our ability to expand our business;
- the effectiveness of our personnel;
- new product and service introductions;
- technical difficulties or interruptions in our services;
- the timing of additional investments in our products;
- regulatory compliance costs;
- costs associated with future acquisitions of technologies and businesses; and
- extraordinary expenses such as litigation or other dispute-related settlement payments.

These factors may materially and adversely affect the market price of our common stock, regardless of our performance. In addition, the stock market in general and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our actual operating performance. Additionally, because 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 on our common stock is limited by our existing line of credit, and may be further restricted by the terms of any of our future debt or preferred securities. Accordingly, investors must rely on sales of their own common stock after price appreciation, which may never occur, as the only way to realize their investment. Investors seeking cash dividends should not purchase shares 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.

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

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

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

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

- provide that the authorized number of directors may be changed by resolution of the board of directors;

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

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

Risks Related to Our 2013 Acquisition of Orbital Gas Systems Limited in the United Kingdom, and our March 2015 Acquisition of CUI Canada

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

We have goodwill totaling approximately $8.5 million associated with the acquisition of Orbital Gas Systems Ltd. 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.

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.

Our gas quality inferential measurement device, GasPT® sold by Orbital Gas Systems Ltd., has not gained market acceptance as rapidly as we anticipated. There is no assurance our acquisition of Orbital will accelerate sales of the GasPT® device.

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; 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. Also, while our management is optimistic that the acquisition of Orbital will stimulate and accelerate sales of the GasPT device, there is no assurance that GasPT device sales will actually increase in the near future due to the Orbital acquisition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

In January 2015, the Company entered into a three-year lease for our 13,175 square foot Houston facility.

In March 2015, as part of the Tectrol (CUI Canada) acquisition, the Company leased a manufacturing facility in Toronto, Canada.

In September 2015, Orbital 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 has enabled the Company to give notice on an additional building it was leasing for manufacturing and office space requirements.

Additionally, CUI Japan has leased space in Tokyo, Japan used as a sales office.

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

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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, 2015, the Company's issued and outstanding shares consisted of 20,806,219 shares of common stock of which 20,236,347 shares are freely tradable without restriction or limitation under the Securities Act. As of December 31, 2015, 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.

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

Our 2013 Public Offering

During April 2013, in conjunction with an SEC Form S-1 registration statement that became effective by the SEC on April 11, 2013, 8.4 million shares of common stock were issued. The Company received $42.0 million before related costs from this transaction. Also, during April 2013, 1.3 million additional shares were issued that are included in the S-1 registration statement pursuant to an over-allotment provision contained in our underwriting agreement. The Company received $6.3 million before related costs from the sale of the over-allotment shares. Net proceeds from the April 2013 common stock sales pursuant to the S-1 registration statement and over-allotment provision were $45.1 million after paying costs of $3.2 million, which were recorded as reductions of additional paid in capital.

Use of Proceeds

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

In May 2013, the Company paid to IED, Inc. $2.0 million in principal, thereby reducing the balance of the note payable to $5.3 million. In conjunction with this payment, the maturity date of the note was extended to May 15, 2020 and the interest was reduced to 5% per annum, payable monthly, with the principal due as a balloon payment at the maturity date.

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

Market Value

The Company's Common Stock is traded on the NASDAQ Stock Market under the trading symbol ''CUI.'' The following table sets forth, the high and low sales prices of our Common Stock on the NASDAQ during each quarter of the two most recent years.

	High	Low
2015		
First Quarter	$7.57	$5.17
Second Quarter	6.02	4.68
Third Quarter	6.02	4.12
Fourth Quarter	7.69	5.12
2014		
First Quarter	$11.34	$6.26
Second Quarter	10.43	6.43
Third Quarter	8.37	6.04
Fourth Quarter	8.64	5.73

Stock 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.

	Period Ending					
Index	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
CUI Global, Inc.	$100.00	$ 76.01	$73.20	$84.27	$99.33	$93.87
NASDAQ Composite	100.00	99.17	116.48	163.21	187.27	200.31
Russell 2000	100.00	95.82	111.49	154.78	162.35	155.18

* $100 invested on 12/31/10 in stock or index, including reinvestment of dividends. Fiscal year ended December 31.

Source : SNL Financial LC, Charlottesville, VA

Dividend Policy

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

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

Common Stock Reserved for Future Issuances

Set forth below is a summary of the outstanding securities, transactions and agreements, which relate to 970,847 shares of common stock the Company is required to reserve for potential future issuances.

- *970,847 common shares reserved for outstanding options issued under our Equity Compensation Plans.* As of December 31, 2015, there were reserved for issuance an aggregate of 970,847 shares of common stock for options outstanding under the Company's 2008 Equity Incentive Plan and the Company's 2009 Equity Incentive Plan (Executive).
- *1,525,862 common shares authorized for issuance under our Equity Compensation Plans*

As of December 31, 2015, the Company has 1,525,862 common shares authorized and available for issuance under the Company option plans.

The approximate 569,872 shares of Common Stock held by existing shareholders as of December 31, 2015 that are ''restricted'' within the meaning of Rule 144 adopted under the Securities Act (the ''Restricted Shares''), may not be sold unless they are registered under the Securities Act or sold pursuant to an exemption from registration, such as the exemption provided by Rule 144 promulgated under the Securities Act. The Restricted Shares were issued and sold by us in private transactions in reliance upon exemptions from registration under the Securities Act and may only be sold in accordance with the provisions of Rule 144 of the Securities Act, unless otherwise registered under the Securities Act.

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

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.

2015 Sales of Unregistered Securities

Common Stock Issued During 2015 (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 2015	Vested restricted common stock	Expensed	Two board members	Director compensation	5,000	$ 36	
January 2015	Vested restricted common stock	Expensed	New Director of Sales and Marketing - Orbital Gas Systems, North America	Sign-on bonus	17,655	125	
March 2015	Vested restricted common stock	$31 thousand included in Prepaid expense and $32 thousand expensed	Consultant	Compensation for strategic investor marketing services	10,000	63	
April 2015	Common stock	Expensed	Former employee	Cashless stock option exercise	108	-	(1)
May 2015	Vested restricted common stock	Expensed	Employee	Approved bonus	1,391	7	
June 2015	Vested restricted common stock	Expensed	Employee	Approved bonus	9,560	50	
June 2015	Vested restricted common	Expensed	Director	Director compensation	1,753	10	

	stock							
July 2015	Vested restricted common stock	Expensed	Employee	Bonus compensation	3,453		15	
July 2015	Common stock	Expensed	Related party, James McKenzie	Pursuant to royalty agreement	3,670		20	
July 2015	Common stock	Expensed	Related party, IED, Inc.	Pursuant to royalty agreement	400		2	
August 2015	Common stock	Expensed	Employee	Cashless stock option exercise	14		-	(1)
August 2015	Vested restricted common stock	Expensed	Director	Director compensation	4,497		25	
November 2015	Vested restricted common stock	Expensed	Director	Director compensation	978		6	
Total 2015 issuances					58,479	$	359	(2)

(1) The Company received $0 for the issuance in the cashless option exercise.

(2) There was $404 thousand of stock-based expense related to employee stock-based bonuses and vested restricted stock units earned in 2015 but not issued until the first quarter of 2016.

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2014 Sales of Unregistered Securities

Common Stock Issued During 2014 (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, February, March, April and November 2014	Common stock	Expensed	Three employees, one officer and one former director	Cashless stock option exercises	31,850	$ -
February, March, August and December 2014	Common stock	Expensed	Four consultants including former director	Consideration for services	131,365	932
March and December 2014	Common stock	Expensed	Related party, James McKenzie	Pursuant to royalty agreement	4,555	31
June 2014	Common stock	Expensed	Employee	Bonus	5,624	50
August 2014	Common stock	Expensed	Three directors	Director compensation	6,435	48
December 2014	Common stock	Expensed	Director	Director compensation	1,248	10
Total 2014 Issuances					181,077	$ 1,071

Options Issued During 2014

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

In January 2014, the Company issued under the 2009 Equity Incentive Plan (Executive) to two board members, who chose to receive a portion of their annual cash board compensation in the form of equity, options to purchase 42,890 restricted shares of common stock with the following assumptions: exercise price of $6.92 per share, volatility of 34%, risk-free interest rate of 1.72% and a term of five years. These options vested over six months during 2014.

In August 2014, the Company issued fully vested sign-on bonus option grants to each of two newly elected directors to purchase 7,500 restricted shares of common stock at a price of $8.15 per share with the following assumptions: exercise price of $8.15 per share, volatility of 61%, risk-free interest rate of 1.63% and a term of five years.

2013 Sales of Unregistered Securities

Common Stock Issued During 2013 (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
June 2013	Common stock	Expensed	22 employees	Bonus	16,305	$ 91
June 2013	Common stock	Expensed	Related party, James McKenzie	Pursuant to royalty agreement	4,578	25
December 2013	Common stock	Expensed	Consultant	Consideration for services	2,500	16
Total 2013 Issuances					23,383	$ 132

Warrants and Options Issued During 2013

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

Shares Eligible for Future Sale

As of December 31, 2015, we had outstanding 20,806,219 shares of Common Stock. Of these shares, 20,236,347 shares are freely tradable without restriction or limitation under the Securities Act.

The 569,872 shares of Common Stock held by existing shareholders as of December 31, 2015 that are ‘‘restricted’’ within the meaning of Rule 144 adopted under the Securities Act (the ‘‘Restricted Shares’’), may not be sold unless they are registered under the Securities Act or sold pursuant to an exemption from registration, such as the exemption provided by Rule 144 promulgated under the Securities Act. The Restricted Shares were issued and sold by us in private transactions in reliance upon exemptions from registration under the Securities Act.

Item 6. Selected Financial Data

The following tables set forth selected consolidated financial data as of the dates and for the periods presented. The selected consolidated balance sheet data as of December 31, 2015 and 2014 and the selected consolidated statement of operations data for the years ended December 31, 2015, 2014, and 2013 have been derived from our audited consolidated financial statements and related notes that we have included elsewhere in this filing. The selected consolidated balance sheet data as of December 31, 2013, 2012, and 2011 and the selected consolidated statement of operations data for the years ended December 31, 2012 and 2011 have been derived from audited consolidated financial statements that are not presented in this filing. The timing of acquisitions and divestitures completed during the years presented affects the comparability of the selected financial data. The selected financial data excludes the operations as well as assets and liabilities of our discontinued operations from our consolidated financial statements.

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

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

(in thousands, except share and per share amounts)	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
Selected Statements of Operations Data:					
Total revenues	$86,667	$76,045	$60,652	$41,085	$38,938
Cost of revenues	54,375	47,494	37,147	25,959	24,133
Selling, general and administrative, depreciation and amortization	35,885	30,121	22,457	15,971	13,348
Research and development	1,848	1,306	943	791	716
Provision for (credit to) bad debt	195	(39)	211	66	82
Impairment of assets (a)	4	32	-	278	-
Other income (expense)	(387)	(27)	156	76	15
Derivative income (expense) (b)	20	(172)	(428)	-	-
Gain on sale of technology rights (c)	-	-	-	-	144
Impairment on note receivable (d)	-	-	502	-	-
Earnings from investment	53	49	25	60	41
Interest expense - amortization of debt offering costs and debt discount	-	-	43	73	335
Interest expense	441	508	443	575	918
(Loss) before taxes	(6,395)	(3,527)	(1,341)	(2,492)	(394)
Provision (benefit) for taxes	(408)	(726)	(398)	34	30
Consolidated (loss) from continuing operations	$(5,987)	$(2,801)	$(943)	$(2,526)	$(424)
Basic and diluted (loss) per common share	$(0.29)	$(0.14)	$(0.05)	$(0.25)	$(0.06)

	As of December 31,				
	2015	2014	2013	2012	2011
Selected Balance Sheet Data:					
Cash and cash equivalents	$7,267	$11,704	$16,576	$3,040	$177
Short-term investments held to maturity	-	11,160	10,869	-	-
Total current assets	38,157	43,126	44,684	13,229	8,118
Total assets	90,848	93,054	99,160	36,723	31,978
Total current liabilities	17,055	12,355	15,296	4,657	9,078
Total liabilities	31,332	27,084	30,602	14,761	22,182
Total Stockholders' equity	59,516	65,970	68,558	21,962	9,796
Preferred shares outstanding	-	-	-	-	50,543
Common shares outstanding	20,806,219	20,747,740	20,566,663	10,883,280	7,314,513

(a) 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. During the year ended December 31, 2012, management determined that an impairment of $0.3 million related to intangible, trademark and trade name V-Infinity was necessary.

(b) In October 2013, in conjunction with the financing of the purchase of the headquarters facility, the purchase was funded, in part, by a promissory note payable to Wells Fargo Bank in the amount of $3.7 million plus interest at the rate of 2% above LIBOR, payable over ten years. It was secured by a deed of trust on the purchased property, which was executed by CUI Properties, LLC and guaranteed by CUI Global, Inc. In conjunction with the purchase, the parties to this transaction entered into a Swap Transaction Confirmation agreement effective October 1, 2013 incorporating the terms and definitions of the International Swaps and Derivatives Association, Inc. (ISDA) that effectively caps the annual interest rate at 6.27%. The Company recorded $20 thousand of income related to the Swap derivative in 2015 and expense in 2014 and 2013 of $0.2 million and $0.4 million, respectively.

(c) During the year ended December 31, 2011, in an effort to concentrate our business focus on our core product development and marketing, we conveyed our WayCool and WayFast patent portfolio to Olantra Fund X LLC for a cash payment of $0.5 million and recognized a gain on sale of technology rights of $0.1 million.

(d) During 2013, it was determined that the note receivable related to the divestment of Comex Electronics had become impaired, at which time the Company recorded an impairment of $0.5 million.

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, 2015 and notes thereto included in this document and our unaudited 10-Q filings for the first three quarters of 2015 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 and conservatively applied. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

While all 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.

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. During the year ended December 31, 2015, management recorded a $2 thousand impairment for a patent within the Power and electromechanical segment as the Company chose not to continue pursuit of the related patent grants. In the fourth quarter of 2015, the Company recorded a $2 thousand impairment of its capitalized website costs for its Japan site after choosing to translate its U.S-based website into Japanese. No other impairment of other long-lived assets were identified as of December 31, 2015. During the year ended December 31, 2014, management identified an indefinite-lived intangible technology rights asset for which its expected life was reduced and an impairment of $32 thousand was recorded. During the year ended December 31, 2013, management recorded an impairment of $0.5 million for the remaining balance of a note receivable from the divestment of Comex Electronics.

Indefinite-Lived Intangibles and Goodwill Assets

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

The Company tests for indefinite-lived intangibles and goodwill impairment in the second quarter of each year and whenever events or circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. The Company’s qualitative assessment of impairment for indefinite-lived assets at May 31, 2015, followed the guidance in ASC 350-30-35-18A and 18B. In accordance with its policies, the Company performed a qualitative assessment of indefinite-lived intangibles and goodwill at May 31, 2015, and determined there was no impairment of indefinite-lived intangibles and goodwill.

CUI Global has adopted ASU 2011-08, which simplifies how an entity is required to test goodwill for impairment. The ASU allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this ASU, CUI Global is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The ASU includes a number of factors to consider in conducting the qualitative assessment. We adopted ASU 2011-08 during the year ended December 31, 2013. The adoption of ASU 2011-08 did not have an impact on our consolidated financial statements. The Company tests for goodwill impairment in the second quarter of each year and whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable.

As detailed in ASC 350-20-35-3A, in performing its testing for goodwill, management completes a qualitative analysis to determine whether it was more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. To complete this review, management follows the steps in ASC 350-20-35-3C to evaluate the fair values of the intangibles and goodwill and considers all known events and circumstances that might trigger an impairment of goodwill. In 2013, 2014 and 2015, the analysis, determined that there was no impairment necessary to goodwill. Through these reviews, management concluded that there were no events or circumstances that triggered an impairment (and there was no expectation that a reporting unit or a significant portion of a reporting unit would be sold or otherwise disposed of in the following year), therefore, no further analysis was necessary to prepare for goodwill impairment beyond the steps in 350-20-35-3C in accordance with ASU 2011-08.

Stock-Based Compensation

The Company accounts for stock-based compensation using FASB Accounting Standards Codification No. 718 (‘‘FASB ASC 718’’), ‘‘Compensation – Stock Compensation.’’ FASB Codification No. 718 requires the fair value of all stock-based employee compensation awarded to employees to be recorded as an expense over the related vesting period. Employee stock compensation is recorded at fair value using the Black-Scholes Pricing Model. The underlying assumptions used in the Black-Scholes Pricing Model by the Company are taken from publicly available sources including: (1) volatility, which is calculated using historic stock price information from online finance websites such as Google Finance and Yahoo Finance; (2) the stock price on the date of grant is obtained from online finance websites such as those previously noted; (3) the appropriate discount rates are obtained from the United States Federal Reserve economic research and data website; and (4) other inputs are determined based on previous experience and related estimates. With regards to the January 2014 options grant, the Company determined expected volatility by reviewing historical share prices for CUI Global for the most recent 12-month period. We determined that the most recent 12-month period of stock price fluctuations best reflected the expected volatility for determining the fair value of our stock options due to the significant changes to the Company, including the 2013 equity raise, acquisition of Orbital, increased institutional ownership and other such factors that have impacted volatility. For the August 2014 options grant, the Company extended the volatility historical period to twenty months as the Company had remained consistent with regards to the aforementioned factors. The Company may continue to change its expected volatility factor to include a longer historical period, once the Company has remained consistent with regards to the aforementioned factors.

Valuation of Non-Cash Capital Stock Issuances

The Company values its stock transactions based upon the fair value of the equity instruments. Various methods can be used to determine the fair value of 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.

Revenue Recognition

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Power and Electromechanical segment

Product revenue is recognized in the period when persuasive evidence of an arrangement with a customer exists, the products are shipped and title has transferred to the customer, the price is fixed or determinable, and collection is reasonably assured. The Company sells to distributors pursuant to distribution agreements that have certain terms and conditions such as the right of return and price protection, which inhibit revenue recognition unless they can be reasonably estimated as we cannot assert the price is fixed and determinable and estimate returns. For one distributor that comprises 20% of revenue, we have such history and ability to estimate and therefore recognized revenue upon sale to the distributor and record a corresponding reserve for the estimated returns. For two other distributor arrangements that represents a combined 7% of revenue, we do not have sufficient history to reasonably estimate price protection reserve and the right of return and accordingly defer revenue and the related costs until such time as the distributor resells the product.

Energy segment

For Production-type contracts meeting the Company's minimum threshold, revenues and related costs on the contracts, are recognized using the ''percentage of completion method'' of accounting in accordance with ASC 605-35, *Accounting for Performance of Construction-Type and Certain Production Type Contracts* (''ASC 605-35''). Under this method, contract revenues and related expenses are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Costs include direct material, direct labor, subcontract labor and any allocable indirect costs. The Company captures certain job costs as work progresses, including labor, material and costs not invoiced. Margin adjustments are made as information pertaining to contracts changes. All un-allocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. The amount of costs not invoiced is captured to ensure an estimated margin consistent with that expected at the completion of the project. In the event a loss on a contract is foreseen, the Company recognizes the loss when it is determined. Contract costs plus recognized profits are accumulated as deferred assets, and billings and/or cash received are recorded to a deferred revenue liability account. The net of these two accounts for any individual project is presented as ''Costs in excess of billings,'' an asset account, or ''Billings in excess of costs,'' a liability account.

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

For product sales in the Energy segment, revenue is recognized in the period when persuasive evidence of an arrangement with a customer exists, the products are shipped and title has transferred to the customer, the price is fixed or determinable, and collection is reasonably assured.

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

Liquidity and Capital Resources

General

As of December 31, 2015, CUI Global held Cash and cash equivalents of $7.3 million. Operations, other intangible assets, investments, equipment and our acquisition and startup, have been funded through cash on hand during the year ended December 31, 2015.

Cash (Used in) provided by Operations

Operating requirements generated negative cash flow from operations of approximately $6.3 million during the year ended December 31, 2015 and negative cash flow from operations of approximately $3.1 million during the year ended December 31, 2014, versus positive cash flow from operations of approximately $1.7 million for the same period in 2013.

Negative cash flow in 2015 from operations of $6.3 million was significantly affected by operating requirements from Orbital Gas Systems North America and CUI Canada during the year ended December 31, 2015, compared to negative cash flow from operations of $3.1 million for 2014. The change in cash used in operations is primarily the result of the net loss in 2015 before non-cash expenses as well as changes in assets and liabilities.

Significant factors that impacted the cash used in operations included the increased receivables of approximately $3.3 million with $1.4 million of it due to credit sales generated following the opening of Orbital Gas Systems North America and the acquisition of CUI Canada coupled with increased sales volume and the timing of deliveries and related sales terms across the Company. Cash used for inventory purchases increased approximately $3.4 million associated with timing of customer orders and ongoing projects. Additionally, the cash flow from operations was impacted by an approximately $1.1 million increase in prepaid expenses and other current assets associated largely with prepaid insurance premiums, product purchases, royalties and consulting services fees. Also, changes in costs in excess of billings and billings in excess of cost were a combined approximate $2.9 million use of cash in the period related to billings on projects in the Energy segment. The overall use in operating cash was partially offset by an increase in accounts payable of approximately $2.1 million primarily due to the timing of goods receipts and the related terms along with the increase due to the addition of Orbital Gas Systems, North America, Inc. and CUI Canada. Accrued expenses increased $1.9 million related largely to an increase in accrued compensation. Unearned revenue increased $2.2 million primarily in relation to increases in deferred revenue from distributor activity within the power and electro-mechanical segment.

During 2015, CUI Global recorded two significant non-cash entries: $0.2 million for provision for bad debt expense and $0.5 million of deferred income tax benefit.

During 2015 and 2014 and 2013, the Company used stock and options as a form of payment to certain vendors, consultants, directors and employees. For years ended December 31, 2015, 2014 and 2013, the Company recorded a total of $1.3 million, $1.7 million and $0.5 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 decrease in 2015 compared to 2014 was due to less stock paid to consultants in 2015 compared to 2014. The increase in 2014 as compared to 2013 is primarily attributable to $0.8 million of stock compensation issued to consultants for strategic consulting services regarding the testing and demonstration of the Energy segment technologies and related strategic customer relations. Additional increases in equity compensation in 2014 are related primarily to the equity compensation expenses associated with director and employee stock grants for performance and vesting expenses associated with options grants.

The 2014 change in cash used by operations is primarily the result of the increased net loss during the year ended December 31, 2014 of $2.8 million of which significant non-cash items impacted profitability. A significant portion of this increased net loss is associated with equity compensation issued in the form of stock and options grants to strategic consultants, employees and directors for performance as well as vesting of granted stock options totaling approximately $1.7 million. Additionally, with the full year amortization of the acquisition related intangible assets acquired with Orbital in 2013, the amortization of intangible assets increased $0.9 million while the deferred income taxes benefit decreased $0.1 million. At the same time as these costs increased, the Company increased revenues $15.4 million and increased gross profits $5.0 million, which contributed to covering operating requirements. Of this increase in revenues, the Energy segment increased approximately $9.5 million related to having Orbital for the full year in 2014 as well as general sales growth for this segment. The Power and Electromechanical segment increased revenues approximately $5.9 million related to continued market penetration through both new and existing customers, including growth within the distribution sales channels.

Further impacting the cash used in operations in 2014 was the significant increase in trade accounts receivables and billings in excess of costs of approximately $3.3 million associated primarily with the increased fourth quarter revenues and the related sales terms on those deliveries. During 2014, the Company experienced an increase of approximately $1.3 million to costs in excess of billings associated with progress on the related projects, increased prepaid expenses of $1.0 million associated primarily with prepaid royalties increases of $0.4 million and increased prepaid taxes of $0.4 million. Unearned revenue increased $0.5 million associated with the timing of related customer orders and the terms granted. Billings in excess decreased $2.9 million during the year related to progress on Energy segment projects.

During 2014, CUI Global recorded two significant non-cash entries, $0.2 million for the unrealized loss on derivative and $0.7 million deferred income taxes benefit.

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

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

During 2013, CUI Global recorded three significant non-cash entries - $0.4 million for derivative expense, $0.8 million for deferred income taxes, and $0.5 million impairment of note receivable.

As the Company focuses on technology development, product line additions, integrating CUI Canada operations, and developing Orbital Gas Systems, North America, Inc. during 2016, it will continue to fund research and development together with related sales and marketing efforts for its various product offerings with cash on hand and short term investments held to maturity.

Capital Expenditures and Investments

During the years ended 2015, 2014 and 2013, CUI Global invested $5.1 million, $0.9 million and $2.1 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 2015 investments in property and equipment included the construction of a new 46,000 square foot state-of-the-art manufacturing/administration/research and development facility in the UK to supplement existing office space at Orbital. The 2013 investments in property and equipment included the down payment toward the September 2013 acquisition of the headquarters facility in Tualatin, Oregon, which is discussed below in Investing Activities – related party activity. The Company anticipates further investment in fixed assets during 2016 in support of its on-going business and continued development of product lines and technologies.

CUI Global invested $0.2 million, $0.2 million, and $0.8 million in other intangible assets during 2015, 2014 and 2013, respectively. These investments typically include product certifications, capitalized website development, software for engineering and research and development and software upgrades for office personnel. In 2013, $0.4 million of the investments are related to the July 2013 acquisition of the exclusive worldwide intellectual property license to the VE probe technology, including both pipeline sampling and thermowell applications. The licenses terms include ongoing minimum royalties during the term of the exclusive agreement. The Company expects its investment in other intangible assets may continue throughout 2015.

During 2015, 2014 and 2013, CUI Global had proceeds from notes receivable of $0, $0, and $33 thousand, respectively.

The Company did not invest in short-term investments classified as held to maturity and received $11.1 million from maturities of these investments during the year ended December 31, 2015. The Company invested $12.8 million in short-term investments classified as held to maturity and received $12.4 million from maturities of these investments during the year ended December 31, 2014. The Company invested $15.4 million in short-term investments classified as held to maturity and received $4.5 million from maturity of these investments during the year ended December 31, 2013. These investments included money market securities, certificates of deposit, commercial paper and corporate notes. 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 also setting appropriate concentration levels to prevent concentrations. This includes a requirement that no more than 3% of the portfolio, or $500,000, whichever is greater, may be invested in one particular issue.

On March 5, 2015, the Company closed on an Asset Purchase Agreement to acquire certain assets and assume certain liabilities of Tectrol, Inc., a Toronto, Canada corporation. The acquisition was effective March 1, 2015 and is included from that date in the Company's Power and Electromechanical segment. As a part of this acquisition strategy, CUI Global, Inc. formed a wholly owned Canadian corporate subsidiary, CUI-Canada, Inc., to receive these acquired assets and liabilities. CUI-Canada, Inc. operations include the design and manufacture assembly of electronic power conversion devices such as AC/DC power supplies, DC/DC power supplies, linear power supplies and uninterruptable power supplies. The purchase price for the acquisition of the assets was $5.2 million subject to good faith adjustments by the parties according to the final value of the non-obsolete inventory conveyed and other closing adjustments. In addition, the agreement calls for an earn-out/royalty payment of two percent of the gross sales (for specific, identified customers) over a period of three years from the closing date, up to a maximum of $0.3 million that may or may not be paid to the seller within 90 days of each calendar year-end, depending on performance by the identified customer(s). The final adjusted purchase price for the acquisition of Tectrol was $4.5 million, which includes the present value of $0.3 million of royalties to be paid on future sales, which was recorded as $0.2 million of contingent consideration.

Effective April 1, 2013, CUI Global closed on a share purchase agreement to acquire 100% of the equity interest in Orbital Gas Systems Limited, a company organized under the laws of England and Wales (‘‘Orbital’’), from Orbital’s sole shareholder. The purchase price for the acquisition of Orbital was £17.0 million British pounds sterling (‘‘£’’), subject to purchase price adjustments, 100% of the purchase price was paid in cash. To secure indemnification obligations, 5.0% of the purchase price, or £850 thousand, was held in escrow through December 1, 2013. The purchase price was $26.2 million, based on the actual exchange rate for British pound sterling to U.S. dollars achieved on April 18, 2013 for the acquisition of Orbital. The cash paid upon acquisition, net of cash received was $17.7 million.

Investing Activities- related party activity

On September 27, 2013, our wholly owned subsidiary, CUI Properties, LLC, signed closing documents on the purchase of our Tualatin, Oregon corporate office real estate. The purchase price for this acquisition was $5.1 million. As part of this transaction, the Company had a third party appraisal performed on the value of the facility acquired to ensure a fair price was obtained in the acquisition. The purchase was funded, in part, by a promissory note payable to Wells Fargo Bank in the amount of $3.7 million with the remaining purchase price being paid from cash on hand.

Financing Activities

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

During the year ended December 31, 2015, the Company issued payments of $32 thousand against capital leases of motor vehicles and equipment and $0.1 million against the mortgage note payable.

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

During the year ended December 31, 2013, the Company received net proceeds after related expenses of $45.1 million from the registered offering sale of 9.7 million shares of common stock at $5.00 per share, made payments of $0.5 million against the line of credit, $2.0 million of payments were made against the related party note payable, $13 thousand of payments against the mortgage note payable and payments of $68 thousand were made against capital leases of motor vehicles and equipment at Orbital. For further discussion of the proceeds from the sale of common stock in 2013, see Note 12. STOCKHOLDERS' EQUITY.

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

Financing activities – related party activity

During 2015, 2014 and 2013, $0.3 million, $0.3 million, and $2.3 million, respectively in principal and interest payments were made in relation to the promissory notes issued to related party, IED, Inc. The 2013 payment utilized $2.0 million from the equity sale proceeds for the repayment of principal. In conjunction with the 2013 principal payment, the promissory note terms were amended to extend the due date to May 15, 2020 and the interest rate was reduced to 5% per annum, with interest payable monthly and the principal due as a balloon payment at maturity.

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

Recap of Liquidity and Capital Resources

During the year ended December 31, 2015, the Company invested for future growth with the acquisition of its Canada operations in the Power and Electromechanical segment, the startup of its Houston Orbital operations in the Energy segment along with the investment in the new U.K. Orbital facility. The net cash used in operating activities increased to $6.3 million in 2015 with much of that due to increases in working capital requirements from starting the two new operations during the year and the Company's continued growth.

The Wells Fargo mortgage promissory note has a balance at December 31, 2015 of $3.5 million due, of which $85 thousand is the current portion. The Wells Fargo promissory note has an interest rate of 2% above LIBOR, payable over ten years, secured by a deed of trust on the purchased property executed by CUI Properties, LLC and guaranteed by CUI Global, Inc. In conjunction with the purchase and promissory note, Wells Fargo and the Company entered into a Swap Transaction Confirmation agreement effective October 1, 2013 that effectively maximizes the annual interest rate at 6.27%. As of the date of this filing, the Company is compliant with all covenants on the promissory note with Wells Fargo Bank.

On September 27, 2013, our wholly owned subsidiary, CUI, Inc., closed on a two-year revolving Line of Credit (LOC) with Wells Fargo Bank in the principal amount of $4.0 million. The interest rate on any outstanding balance is 1.75% above either the daily one month LIBOR or the LIBOR in effect on the first day of the applicable fixed rate term. The LOC is secured through a security agreement on accounts receivable and equipment, as well as other miscellaneous personal property assets. CUI Global, Inc., the parent company, is a payment guarantor of the LOC.

As of the date of this filing, the Company is compliant with all covenants on the line of credit with Wells Fargo Capital Finance. At December 31, 2015, there was no balance outstanding on the line of credit.

At December 31, 2015, the Company had cash and cash equivalents balances of $7.3 million. At December 31, 2015 and 2014, the Company had $0.6 million and $2.1 million, respectively, of cash and cash equivalents balances at domestic financial institutions, which were covered under the FDIC insured deposits programs and $0.2 million and $0.1 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, 2015 and 2014, the Company held $0.2 million and $64 thousand, respectively, in Japanese foreign bank accounts and $2.2 million and $2.5 million, respectively, in European foreign bank accounts. At December 31, 2015 and 2014, the Company had $0 and $6.8 million, respectively, of investments in certificates of deposit, which were covered under FDIC insured limits and covered under $0.5 million of SIPC insured programs for investments.

The following tables present our contractual obligations as of December 31, 2015 (in thousands)

	Payments due by period				
	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years	Total
Capital Lease Obligations					
Minimum lease payments	$44	$ 31	$ -	$ -	$75
Operating lease obligations					
Operating Leases	565	826	356	-	1,747
Notes payable Maturities	85	183	203	8,357	8,828
Interest on notes payable (1)	265	530	365	-	1,160
Total Obligations	$959	$ 1,570	$ 924	$ 8,357	$11,810

(1) The interest on notes payable includes fixed interest on the related party note payable to IED, Inc. It does not include the variable interest on the mortgage payable. For further information regarding notes payable see Note 9 - Notes Payable.

As of December 31, 2015 the Company had an accumulated deficit of $88.7 million.

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

The Company expects the revenues from its Power and Electromechanical and Energy segments to help cover operating and other expenses for the next twelve months of operations. Additionally, in March 2015, the Company acquired the assets of Tectrol, Inc., which are included in the operations of the power and electromechanical segment and its product lines will further contribute revenues to help cover operating and other expenses for the next twelve months of operations. If revenues and the funds raised in 2012 and in April 2013 through the sales of equity are not sufficient to cover all operating and other expenses, additional funding may be required. There is no assurance the Company will be able to raise such additional capital. The failure to raise capital or generate product sales in the expected time frame would have a material adverse effect on the Company.

Off-Balance Sheet Arrangements

As of December 31, 2015, the Company had no off-balance sheet arrangements.

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, 2015							
	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	$58,464	100.0 %	$28,203	100.0 %	$-	0.0 %	$86,667	100.0 %
Cost of revenue	36,714	62.8 %	17,661	62.6 %	-	0.0 %	54,375	62.7 %
Gross Profit	21,750	37.2 %	10,542	37.4 %	-	0.0 %	32,292	37.3 %
Operating expenses:								
Selling, general and administrative	16,303	27.9 %	12,091	42.9 %	4,629	0.0 %	33,023	38.1 %
Depreciation and amortization	915	1.6 %	1,941	6.9 %	6	0.0 %	2,862	3.3 %
Research and development	1,707	2.9 %	141	0.5 %	-	0.0 %	1,848	2.1 %
Bad debt	70	0.1 %	125	0.4 %	-	0.0 %	195	0.2 %
Other Operating Expenses	24	0.0 %	34	0.1 %	-	0.0 %	58	0.1 %
Total operating expenses	19,019	32.5 %	14,332	50.8 %	4,635	0.0 %	37,986	43.8 %
Income (loss) from operations	$2,731	4.7 %	$(3,790)	(13.4 %)	$(4,635)	0.0 %	$(5,694)	(6.5 %)

(dollars in thousands)	Year ended December 31, 2014							
	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	$48,675	100.0 %	$27,370	100.0 %	$-	0.0 %	$76,045	100.0 %
Cost of revenue	29,334	60.3 %	18,160	66.4 %	-	0.0 %	47,494	62.5 %
Gross Profit	19,341	39.7 %	9,210	33.6 %	-	0.0 %	28,551	37.5 %
Operating expenses:								
Selling, general and administrative	13,055	26.8 %	8,900	32.5 %	3,969	0.0 %	25,924	34.1 %
Depreciation and amortization	712	1.5 %	3,482	12.7 %	3	0.0 %	4,197	5.5 %
Research and development	1,169	2.4 %	137	0.5 %	-	0.0 %	1,306	1.7 %
Bad debt	(88)	(0.2)%	49	0.2 %	-	0.0 %	(39)	(0.1)%
Other operating expenses	35	0.1 %	24	0.1 %	-	0.0 %	59	0.1 %
Total operating expenses	14,883	30.6 %	12,592	46.0 %	3,972	0.0 %	31,447	41.3 %
Income (loss) from operations	$4,458	9.1 %	$(3,382)	(12.4)%	$(3,972)	0.0 %	$(2,896)	(3.8)%

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(dollars in thousands)	Year ended December 31, 2013							
	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	$42,795	100.0 %	$17,857	100.0 %	$-	0.0 %	$60,652	100.0 %
Cost of revenue	26,298	61.5 %	10,849	60.8 %	-	0.0 %	37,147	61.2 %
Gross Profit	16,497	38.5 %	7,008	39.2 %	-	0.0 %	23,505	38.8 %
Operating expenses:								
Selling, general and administrative	11,621	27.2 %	4,571	25.6 %	3,254	0.0 %	19,446	32.1 %
Depreciation and amortization	596	1.4 %	2,412	13.5 %	3	0.0 %	3,011	5.0 %
Research and development	890	2.0 %	53	0.3 %	-	0.0 %	943	1.6 %
Bad debt	159	0.4 %	52	0.3 %	-	0.0 %	211	0.3 %
Other operating expenses	11	0.0 %	(1)	0.0 %	-	0.0 %	10	0.0 %
Total operating expenses	13,277	31.0 %	7,087	39.7 %	3,257	0.0 %	23,621	39.0 %
Income (loss) from operations	$3,220	7.5 %	$(79)	(0.5)%	$(3,257)	0.0 %	$(116)	(0.2)%

Revenue

Revenues by Segment (dollars in thousands)	2015	Percent Change	2014	Percent Change	2013
Power and Electromechanical	$58,464	20.1 %	$48,675	13.7 %	$42,795
Energy	28,203	3.0 %	27,370	53.3 %	17,857
Other	-	0.0 %	-	0.0 %	-
Total revenues	$86,667	14.0 %	$76,045	25.4 %	$60,652

2015 compared to 2014

Revenues are attributable to continued sales and marketing efforts, sales through the distribution channel customers, and the addition in March 2015 of CUI Canada related product line, and the revenues generated since the January 2015 opening of Orbital Gas Systems, North America, Inc.

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, the addition of a third distribution channel, and the addition in March 2015 of the products from CUI Canada.

The Power and Electromechanical segment held a backlog of customer orders of approximately $19.7 million as of December 31, 2015 compared to a backlog of customer orders of approximately $12.5 million as of December 31, 2014. At December 31, 2015, Orbital held a backlog of customer orders of approximately $12.5 million compared to approximately $15.9 million as of December 31, 2014. Not included in Orbital's backlog at December 31, 2015 was the purchase order announced in February 2016 for the sale of 400 of the Company's GasPT Analyzers to Europe's largest natural gas transmission company, which is Orbital's first large-scale order for this product. The Company intends to grow this product line to become a major portion of Orbital's revenue going forward.

CUI, Inc. introduced 838 new products during the year ended 2015 compared to 937 new products during the year ended 2014. The continued product expansion and moving smaller sales through the distribution channel is expected to continue to result in revenue growth in future periods as CUI's sales group and support staff continues to reach new customers, further expand relationships with existing customers and continued product introductions in efforts to have CUI products designed into new projects.

2014 compared to 2013

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

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

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

CUI, Inc. introduced 937 new products during the year ended 2014 compared to 808 new products during the year ended 2013.

Cost of Revenue

Cost of Revenues by Segment (dollars in thousands)	2015	Percent Change	2014	Percent Change	2013
Power and Electromechanical	$36,714	25.2 %	$29,334	11.5 %	$26,298
Energy	17,661	(2.7)%	18,160	67.4 %	10,849
Other	-	0.0 %	-	0.0 %	-
Total cost of revenues	$54,375	14.5 %	$47,494	27.9 %	$37,147

2015 compared to 2014

The increase to costs of revenue in the Power and Electromechanical Segment during 2015 compared to 2014 is primarily the result of the increase in sales. The decrease in the Energy Segment was due to a better product mix in 2015 compared to 2014 as well as cost reductions associated with bio-methane projects that had increased costs during 2014. As a percentage of revenues, the cost of revenue remained generally consistent at 62.7% compared to 62.5% for 2014. The consolidated cost of revenues was consistent as a percent of revenues due to offsetting factors. The Power and Electromechanical segment had higher costs as a percent of revenues in 2015 due to higher costs as we transitioned manufacturing to our new Canada plant while the Energy segment had lower costs as a percent of revenues due to the improved product mix and cost reductions associated with bio-methane projects.

2014 compared to 2013

The significant increase to costs of revenue during 2014 compared to 2013 is primarily the result of the increase in sales in both the Power and Electromechanical Segment and the Energy Segment, which included the operations of Orbital during all of 2014 compared to three quarters of 2013. As a percentage of revenues, the cost of revenue remained generally consistent at 62.5% for 2014 compared to 61.2% in 2013.

Selling, General and Administrative Expenses

Selling, General, and Administrative Expense by Segment (dollars in thousands)	2015	Percent Change	2014	Percent Change	2013
Power and Electromechanical	$16,303	24.9 %	$13,055	12.3 %	$11,621
Energy	12,091	35.9 %	8,900	94.7 %	4,571
Other	4,629	16.6 %	3,969	22.0 %	3,254
Total SG&A	$33,023	27.4 %	$25,924	33.3 %	$19,446

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

2015 compared to 2014

For year ended December 31, 2015 compared to the same period in 2014, SG&A expenses increased $7.1 million. The increase during 2015 is primarily associated with the addition of the SG&A activities of Orbital Gas Systems, North America, Inc., which opened in Houston, Texas in January 2015 and accounted for approximately $4.0 million of additional SG&A. Partially offsetting this increase in the Energy segment expense was a $0.7 million charge during the third quarter of 2014 of equity compensation expense for strategic consulting services that did not recur in 2015.

In addition, the operations related to CUI Canada, which was acquired in March 2015, accounted for approximately $1.1 million of the increase in SG&A during the period. The remaining increases in SG&A are associated with the ongoing activities to reach new customers, promote our product lines including Novum, GasPT, IRIS and VE-Probe, and new product introductions. As a percentage of total revenue, SG&A increased during 2015 to 38% from 34% during the prior-year comparable period due primarily to the additional costs related to the new operations in Houston and Canada.

The Company anticipates the amount of our sales and marketing expenditures and general and administrative expenses will further increase in 2016 as the Company continues to grow and as we expand our Energy Segment operations. The following are additional factors regarding the anticipated increase in SG&A expenditures for 2016:

- costs associated with the continued efforts to increase revenues;
- costs associated with further expanding distribution sales for the CUI Inc. product lines;
- continued work to penetrate the market with our newer product lines including GasPT, VE, IRIS, Novum; and
- increased costs as we seek to continue to further our technology offerings.

2014 compared to 2013

SG&A expenses increased to approximately $25.9 million for the year ended December 31, 2014 from $19.5 million for the same period during 2013. The 2014 increase of approximately $6.5 million from 2013 is primarily the result of having Orbital included for the first quarter of 2014 SG&A activities of Orbital, which accounted for approximately $2.0 million of the increase, stock compensation expense of $1.7 million representing an increase of $1.1 million from 2013 related to stock issuances and vesting expense of options related to consultants for strategic services including customer marketing and investor relations, to directors and employees for services, as well as the overall increase in operations throughout the organization associated with increased revenues of approximately $15.4 million including continued investment in reaching new customers and markets and continuing existing customer relationships.

The total dollar amount of SG&A as a percentage of total revenue for the year ended December 2014 was 34%, compared to 32% in 2013.

Depreciation and Amortization

Depreciation and Amortization (dollars in thousands)	2015	Percent Change	2014	Percent Change	2013
Power and Electromechanical	$1,258	33.7 %	$941	8.8 %	$865
Energy	1,945	(44.4)%	3,498	45.1 %	2,411
Other	6	100.0 %	3	0.0 %	3
Total depreciation and amortization	$3,209	(27.8)%	$4,442	35.5 %	$3,279

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.

2015 compared to 2014

Depreciation and amortization has decreased in 2015 compared to 2014 as the intangible asset associated with the order backlog acquired with Orbital Gas Systems Limited was fully amortized during the first quarter of 2015.

2014 compared to 2013

The large increase in the depreciation and amortization expense between 2014 and 2013 is primarily the result of the increased amortization expense of $0.9 million associated with the identifiable intangible assets that were acquired during the second quarter of 2013 with Orbital and amortized over their estimated useful lives, as well as a full year of depreciation expense for tangible depreciating fixed assets at Orbital in 2014 and a full year of depreciation in 2014 of the CUI Global headquarters building acquired in September 2013.

Research and Development

Research and Development (dollars in thousands)	2015	Percent Change	2014	Percent Change	2013
Power and Electromechanical	$1,707	46.0 %	$1,169	31.3 %	$890
Energy	141	2.9 %	137	158.5 %	53
Other	-	0.0 %	-	0.0 %	-
Total research and development	$1,848	41.5 %	$1,306	38.5 %	$943

The research and development costs are related to the various technologies for which CUI Global has acquired licensing rights or is developing internally. The expenditures for research and development have been directed primarily towards the further development of Novum Advanced Power technologies including digital POLs, AMT Capacitive Encoders and towards the development of the GasPT and VE technologies. The Company expects that 2016 research and development expenses will be consistent with 2015 as the Company continues to expand its product offering and technologies due to market acceptance and customer integration.

Impairment Loss

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. In performing the review for recoverability, the future cash flows expected to result from the use of the asset and its eventual disposition are estimated. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized as the excess of the carrying amount over the fair value. Otherwise, an impairment loss is not recognized. Management estimates the fair value and the estimated future cash flows expected. Any changes in these estimates could impact whether there was impairment and the amount of the impairment. There were approximately $4 thousand, $32 thousand, and $0 of impairment expenses recorded by the Company in 2015, 2014, and 2013, respectively.

Bad Debt

Bad Debt Expense (dollars in thousands)	2015	Percent Change	2014	Percent Change	2013
Power and Electromechanical	$70	(179.5)%	$(88)	(155.3)%	$159
Energy	125	155.1 %	49	(5.8)%	52
Other	-	0.0 %	-	0.0 %	-
Total Bad Debt Expense	$195	(600.0)%	$(39)	(118.5)%	$211

Bad debt expenses in 2015, 2014 and 2013 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.

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Other Income (expense)

	2015	Percent Change	2014	Percent Change	2013
Foreign exchange gain (loss)	$(391)	279.6 %	$(103)	(310.2)%	$49
Earnings from investment	53	8.2 %	49	96.0 %	25
Interest income	38	(73.8)%	145	26.1 %	115
Unrealized gain (loss) on derivative	20	(111.6)%	(172)	(59.8)%	(428)
Amortization of investment premiums and discounts	(15)	(80.0)%	(75)	226.1 %	(23)
Amortization of debt offering costs and debt discount	-	0.0 %	-	(100.0)%	(43)
Other, net	35	6.1 %	33	32.0 %	25
Total Other income (expense)	$(260)	111.4 %	$(123)	(56.1)%	$(280)

Impairment on note receivable

The impairment on note receivable during 2013 is related to fully reserving against the July 1, 2011 note receivable from Comex Electronics and its owners following notification that the primary owner had passed away in December 2013 and the Company intended to seek bankruptcy protection under Japanese law. As of December 31, 2015 recovery is unlikely and the full balance has been written off.

Investment Income

The Company recognized investment income on equity investment in an affiliate of approximately $53 thousand in the first 9 months of 2015 and, $49 thousand, and $25 thousand for the years ended December 31, 2014 and 2013, respectively. The Company discontinued the equity method of accounting for its investment as of October 1, 2015. For more information on this investment, see Note 1, Summary of Significant Accounting Policies - Investments, to the Consolidated Financial Statements under Part II, Item 8, ‘‘Financial Statements and Supplementary Data.’’

Financing Fees

During 2015 and 2014, the Company did not incur financing fees. During 2013, the Company incurred financing fees associated with the equity raises of approximately $3.2 million. These fees were offset against Additional Paid in Capital in relation to the equity proceeds.

Change in Value of Warranty Liability

In 2015, the Company recorded a warranty reserve of $50 thousand at our Canada subsidiary that is included in accrued expenses on the balance sheet at December 31, 2015. During 2014, the Company reduced its warranty liability at Orbital to $0 based upon estimates of future warranty costs associated with 2014 sales. During 2013, following the acquisition of Orbital, the Company reported a warranty liability of approximately $0.2 million, which was included in accrued expenses on the balance sheet at December 31, 2013.

Non-cash Interest Expense

The Company recorded expenses of approximately $0 thousand, $0, and $43 thousand during 2015, 2014 and 2013, respectively, for non-cash interest expenses, including amortization of debt offering costs. The decrease in this expense during 2014 is primarily associated with the completion in 2013 of the amortization of the debt offering costs associated with Wells Fargo related debts.

Interest Expense

The Company incurred $0.4 million, $0.5 million, and $0.4 million of interest expense during 2015, 2014 and 2013, respectively. Interest expense is for interest on the secured and unsecured convertible notes, secured and unsecured promissory notes, and bank working capital loans and term loans. The decrease in 2015 is due primarily to interest capitalized as part of the construction of the manufacturing/administration/research and development facility in the U.K. for Orbital. The increases in 2014 is the result of the full years interest related to the promissory note payable to Wells Fargo Bank, N.A. for the financing of the purchase of the headquarters facility in Oregon in September 2013, which is discussed further in Item 2. Properties.

Provision (benefit) for taxes

2015 compared to 2014

A net benefit of $0.4 million was recorded to the income tax provision for the year ended December 31, 2015 resulting in an effective tax rate of 6.4% for the year. Our income tax benefit and effective tax rate were $0.7 million and 20.6%, respectively for the same period in 2014. The income tax benefit in 2015 and 2014 relates primarily to our foreign operations partially offset by state minimum taxes as all other USA tax benefits are reduced by a full valuation allowance.

We continue to record a full valuation allowance against our U.S. net deferred tax assets at December 31, 2015 and 2014 as it is not more likely than not that we will realize a benefit from these assets in a future period. As of December 31, 2015, we have federal and state and foreign net operating loss carry forwards of approximately $49.1 million, $49.3 million, and $0.8 million, respectively, and for which the Federal and state net operating loss carry-forwards will expire between 2018 and 2035.

2014 compared to 2013

A net benefit of $0.7 million was recorded to the income tax provision for the year ended December 31, 2014 resulting in an effective tax rate of 20.6% for the year. Our income tax benefit and effective tax rate were $0.4 million and 29.7%, respectively for the same period in 2013. The income tax benefit in 2014 and 2013 related primarily to our foreign operations partially offset by state minimum taxes as all other USA tax benefits are reduced by a full valuation allowance.

Consolidated Net Loss

2015 compared to 2014

The Company had a net loss of $6.0 million for the year ended December 31, 2015 compared to a net loss of $2.8 million for the year ended December 31, 2014. The consolidated net loss for 2015 was primarily the result of increased selling, general and administrative expenses related to the opening of the Orbital Gas Systems, North America, Inc. facility in January 2015 and the addition of CUI Canada, Inc. in March 2015 as well as the ongoing amortization of intangible assets related to the Orbital Gas Systems Limited acquisition and CUI Canada acquisition.

2014 compared to 2013

The Company had a net loss of $2.8 million for the year ended December 31, 2014 compared to a net loss of $0.9 million for the year ended December 31, 2013. The loss in 2014 was largely attributable to several significant non-cash items that impacted profitability. A significant portion of the increase in non-cash related expense is the equity compensation issued in the form of stock and options grants to strategic consultants, employees and directors for performance as well as vesting of granted stock options totaling approximately $1.7 million, an increase of approximately $1.1 million compared to the year ended December 31, 2013. Additionally, with the full year amortization in 2014 of the acquisition related intangible assets acquired with Orbital in 2013, the amortization of intangible assets increased $0.9 million while the deferred income taxes benefit decreased $0.1 million. At the same time as these costs increased, the Company increased revenues $15.4 million, while the gross profit margin decreased slightly to 37.5% from 38.8%, which helped to offset these increased costs. Of this increase, the Energy segment increased approximately $9.5 million related to having Orbital for the full year in 2014 as well as general sales growth for this segment. The Power and Electromechanical segment increased revenues approximately $5.9 million related to continued market penetration through both new and existing customers, including growth within the distribution sales channels.

The loss in 2013 is largely attributable to the non-cash amortization expense associated with intangible assets acquired with the April 2013 acquisition of Orbital. Total amortization of intangible assets during 2013 was approximately $2.7 million. Additionally, the Company recognized bad debt expense of $0.2 million for miscellaneous customer receivables for which collection was uncertain and $0.5 million for the impairment of note receivable relative to the remaining balance of the note receivable for the divestment of CUI Global's 49% interest in Comex in 2011.

Effect of Inflation and Changing Prices

The Company believes, that during fiscal years ended December 31, 2015, 2014 and 2013, 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., U.K. 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., U.K., 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.

The table below details the percentage of revenues and expenses by the three principal currencies for the fiscal years ended December 31, 2015, December 31, 2014 and December 31, 2013:

	U.S. Dollars		British Pound Sterling[1]		Canadian Dollar [(2)]		Japanese Yen	
Fiscal year ended December 31, 2015								
Revenues	70	%	28	%	1	%	1	%
Operating expenses	66	%	27	%	6	%	1	%
Fiscal year ended December 31, 2014								
Revenues	63	%	36	%	0	%	1	%
Operating expenses	61	%	38	%	0	%	1	%
Fiscal year ended December 31, 2013								
Revenues	69	%	29	%	0	%	2	%
Operating expenses	71	%	28	%	0	%	1	%

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

[2] On March 5, 2015, the Company closed on an asset purchase agreement to acquire the assets of Tectrol, Inc. (CUI Canada) which was effective March 1, 2015.

To date, we have not entered into any hedging arrangements with respect to foreign currency risk and have limited activity with forward foreign currency contracts or other similar derivative instruments. The Company believes, that during fiscal ended December 31, 2015, the effect of a hypothetical 100 basis point shift in foreign currency exchange rates applicable to our business would not have had a material impact on our consolidated financial statements.

Investment Risk

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

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

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

Item 8. Financial Statements and Supplementary Data

CUI Global, Inc.

Index to Consolidated Financial Statements

Contents

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

CUI Global Inc.

Tualatin, Oregon

We have audited the accompanying consolidated balance sheets of CUI Global, Inc. and Subsidiaries as of December 31, 2015 and 2014 and the related consolidated statements of operations, comprehensive income and (loss), changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CUI Global, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CUI Global Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our audit excluded an evaluation of internal control over financial reporting of CUI-Canada, Inc., which was established in connection with the acquisition of the assets, certain liabilities, and operations of Tectrol, Inc. by CUI Global, Inc. in 2015. Our report dated March 14, 2016 expressed an adverse opinion due to material weaknesses regarding management's failure to design and maintain controls surrounding: 1) the recognition of revenue on a percentage of completion basis under generally accepted accounting principles in the United States of America; and 2) the preparation and review of foreign income taxes within the Company's consolidated income tax provision. These weaknesses are described in management's assessment, Management's Annual Report on Internal Control Over Financial Reporting.

/s/ Perkins & Company, P.C.

Portland, Oregon

March 14, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statement of operations, comprehensive income and loss, stockholders’ equity and cash flows of CUI Global, Inc. and Subsidiaries (“the Company”) for the year ended December 31, 2013. The Company’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

LIGGETT & WEBB, P.A.

Certified Public Accountants

Boynton Beach, Florida

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

CUI Global, Inc.

Consolidated Balance Sheets

As of December 31, 2015 and 2014

(in thousands except share and per share data)	December 31, 2015	December 31, 2014
Assets:		
Current Assets:		
Cash and cash equivalents	$ 7,267	$ 11,704
Short-term investments held to maturity	-	11,160
Trade accounts receivable, net of allowance of $90 and $254, respectively	14,685	9,980
Inventories, net of allowance of $386 and $394, respectively	12,075	6,841
Costs in excess of billings	1,571	1,889
Prepaid expenses and other	2,559	1,552
Total current assets	38,157	43,126
Property and equipment, less accumulated depreciation of $3,126 and $2,877 respectively	11,950	7,793
Goodwill	21,527	21,887
Other intangible assets, less accumulated amortization of $8,999 and $6,987, respectively	18,746	19,785
Investment	385	332
Deposits and other assets	83	131
Total assets	$ 90,848	$ 93,054
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts payable	$ 5,806	$ 3,834
Mortgage note payable, current portion	85	81
Capital lease obligation, current portion	41	33
Accrued expenses	5,222	3,161
Billings in excess of costs	2,190	3,624
Unearned revenue	3,711	1,622
Total current liabilities	17,055	12,355
Long term mortgage note payable, less current portion	3,439	3,523
Long term note payable, related party	5,304	5,304
Capital lease obligation, less current portion	29	74
Derivative liability	580	600
Deferred tax liabilities, net	4,533	5,096

Other long-term liabilities	392	132
Total liabilities	31,332	27,084
Commitments and contingencies		
Stockholders' Equity:		
Common stock, par value $0.001; 325,000,000 shares authorized; 20,806,219 shares issued and outstanding at December 31, 2015 and 20,747,740 shares issued and outstanding at December 31, 2014	21	21
Additional paid-in capital	149,639	148,398
Accumulated deficit	(88,704)	(82,717)
Accumulated other comprehensive income (loss)	(1,440)	268
Total stockholders' equity	59,516	65,970
Total liabilities and stockholders' equity	$ 90,848	$ 93,054

See accompanying notes to consolidated financial statements

CUI Global, Inc.

Consolidated Statements of Operations

For the Years Ended December 31, 2015, 2014 and 2013

(In thousands, except share and per share amounts)

	2015	2014	2013
Total revenues	$86,667	$76,045	$60,652
Cost of revenues	54,375	47,494	37,147
Gross profit	32,292	28,551	23,505
Operating expenses:			
Selling, general and administrative	33,023	25,924	19,446
Depreciation and amortization	2,862	4,197	3,011
Research and development	1,848	1,306	943
Provision for (Credit to) Bad Debt	195	(39)	211
Other operating expenses	58	59	10
Total operating expenses	37,986	31,447	23,621
Loss from operations	(5,694)	(2,896)	(116)
Impairment on note receivable	-	-	(502)
Other income (expense)	(260)	(123)	(280)
Interest expense	(441)	(508)	(443)
Loss before taxes	(6,395)	(3,527)	(1,341)
Income tax benefit	(408)	(726)	(398)
Net loss	$(5,987)	$(2,801)	$(943)
Basic and diluted weighted average common and common equivalent shares outstanding	20,792,494	20,658,634	17,751,042
Basic and diluted (loss) per common share	$(0.29)	$(0.14)	$(0.05)

See accompanying notes to consolidated financial statements

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CUI Global, Inc.

Consolidated Statements of Comprehensive Income and (Loss)

For the Years Ended December 31, 2015, 2014 and 2013

(In thousands)

	2015	2014	2013
Net loss	$(5,987)	$(2,801)	$(943)
Other comprehensive income (loss)			
Foreign currency translation adjustment	(1,708)	(1,570)	1,862
Comprehensive income (loss)	$(7,695)	$(4,371)	$919

See accompanying notes to consolidated financial statements

CUI Global, Inc.

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2015, 2014 and 2013

(In thousands, except share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2012	10,883,280	$ 11	$ 100,948	$ (78,973)	$ (24)	$ 21,962
Options granted for services and compensation	-	-	410	-	-	