UNIVERSAL ELECTRONICS INC
Form 10-Q
August 06, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

o **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: 0-21044
UNIVERSAL ELECTRONICS INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**33-0204817**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
6101 Gateway Drive Cypress, California	**90630**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s Telephone Number, Including Area Code: (714) 820-1000

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, and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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. (Check one):

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 13,463,219 shares of Common Stock, par value $0.01 per share, of the registrant were outstanding on August 4, 2010.

UNIVERSAL ELECTRONICS INC.
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PART I. FINANCIAL INFORMATION
ITEM 1. Consolidated Financial Statements (Unaudited)

UNIVERSAL ELECTRONICS INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share-related data)
(Unaudited)

	June 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 78,838	$ 29,016
Term deposit		49,246
Accounts receivable, net	56,130	64,392
Inventories, net	43,927	40,947
Prepaid expenses and other current assets	2,315	2,423
Deferred income taxes	2,959	3,016
Total current assets	184,169	189,040
Equipment, furniture and fixtures, net	10,219	9,990
Goodwill	13,404	13,724
Intangible assets, net	11,422	11,572
Other assets	759	1,144
Deferred income taxes	7,761	7,837
Total assets	$ 227,734	$ 233,307
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 41,828	$ 39,514
Accrued sales discounts, rebates and royalties	4,785	6,028
Accrued income taxes	957	3,254
Accrued compensation	5,345	4,619
Other accrued expenses	6,404	8,539
Total current liabilities	59,319	61,954
Long-term liabilities:		
Deferred income taxes	139	153
Income tax payable	1,348	1,348
Other long-term liabilities	100	122
Total liabilities	60,906	63,577
Commitments and contingencies		
Stockholders equity:		

Preferred stock, $0.01 par value, 5,000,000 shares authorized; none issued or outstanding		
Common stock, $0.01 par value, 50,000,000 shares authorized; 19,238,800 and 19,140,232 shares issued on June 30, 2010 and December 31, 2009, respectively	192	191
Paid-in capital	131,971	128,913
Accumulated other comprehensive (loss) income	(4,018)	1,463
Retained earnings	125,602	118,989
	253,747	249,556
Less cost of common stock in treasury, 5,790,633 and 5,449,962 shares on June 30, 2010 and December 31, 2009, respectively	(86,919)	(79,826)
Total stockholders equity	166,828	169,730
Total liabilities and stockholders equity	$ 227,734	$ 233,307

The accompanying notes are an integral part of these financial statements.

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UNIVERSAL ELECTRONICS INC.
CONSOLIDATED INCOME STATEMENTS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net sales	$ 78,892	$ 78,303	$ 150,268	$ 149,429
Cost of sales	51,467	52,808	100,779	102,497
Gross profit	27,425	25,495	49,489	46,932
Research and development expenses	2,488	2,050	5,257	4,160
Selling, general and administrative expenses	17,621	17,758	34,229	35,549
Operating income	7,316	5,687	10,003	7,223
Interest income, net	17	127	100	266
Other (expense) income, net	(21)	182	22	(186)
Income before provision for income taxes	7,312	5,996	10,125	7,303
Provision for income taxes	(2,535)	(2,180)	(3,512)	(2,691)
Net income	$ 4,777	$ 3,816	$ 6,613	$ 4,612
Earnings per share:				
Basic	$ 0.35	$ 0.28	$ 0.48	$ 0.34
Diluted	$ 0.34	$ 0.27	$ 0.47	$ 0.33
Shares used in computing earnings per share:				
Basic	13,601	13,621	13,650	13,640
Diluted	13,929	13,981	14,011	13,907

The accompanying notes are an integral part of these financial statements.

UNIVERSAL ELECTRONICS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Cash provided by operating activities:		
Net income	$ 6,613	$ 4,612
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,079	3,332
Provision for doubtful accounts	747	143
Provision for inventory write-downs	1,450	2,170
Deferred income taxes	33	(111)
Tax benefit from exercise of stock options	109	301
Excess tax benefit from stock-based compensation	(103)	(151)
Shares issued for employee benefit plan	375	342
Stock-based compensation	2,532	2,081
Changes in operating assets and liabilities:		
Accounts receivable	3,872	927
Inventories	(6,368)	(3,021)
Prepaid expenses and other assets	307	1,112
Accounts payable and accrued expenses	2,992	(1,603)
Accrued income taxes	(1,909)	(527)
Net cash provided by operating activities	13,729	9,607
Cash provided by (used for) investing activities:		
Term deposit	49,246	(49,199)
Acquisition of equipment, furniture and fixtures	(3,041)	(2,193)
Acquisition of intangible assets	(749)	(751)
Acquisition of assets from Zilog, Inc.		(9,502)
Net cash provided by (used for) investing activities	45,456	(61,645)
Cash used for financing activities:		
Proceeds from stock options exercised	257	1,557
Treasury stock purchased	(7,308)	(3,873)
Excess tax benefit from stock-based compensation	103	151
Net cash used for financing activities	(6,948)	(2,165)
Effect of exchange rate changes on cash	(2,415)	342

Net increase (decrease) in cash and cash equivalents	49,822	(53,861)
Cash and cash equivalents at beginning of period	29,016	75,238
Cash and cash equivalents at end of period	$ 78,838	$ 21,377

Supplemental Cash Flow Information *We had net income tax payments of $5.6 million and $3.2 million during the six months ended June 30, 2010 and 2009, respectively.*

The accompanying notes are an integral part of these financial statements.

UNIVERSAL ELECTRONICS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Basis of Presentation and Significant Accounting Policies

In the opinion of management, the accompanying consolidated financial statements of Universal Electronics Inc. and its wholly-owned subsidiaries contain all the adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented. All such adjustments are of a normal recurring nature and certain reclassifications have been made to prior-year amounts in order to conform to the current-year presentation. Information and footnote disclosures normally included in financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. As used herein, the terms Company, we, us and our refer to Universal Electronics Inc. and its subsidiaries, unless the context indicates to the contrary.

Our results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the Risk Factors, Management Discussion and Analysis of Financial Conditions and Results of Operations, Quantitative and Qualitative Disclosures About Market Risk, and the Financial Statements and Supplementary Data and notes thereto included in Items 1A, 7, 7A, and 8, respectively, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Estimates, Judgments and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates, judgments and assumptions, including those related to revenue recognition, allowance for sales returns and doubtful accounts, warranties, inventory valuation, business combination purchase price allocations, impairment of long-lived assets, intangible assets and goodwill, income taxes and stock-based compensation expense. Actual results may differ from our expectations. Based on our evaluation, our estimates, judgments and assumptions may be adjusted as more information becomes available. Any adjustment may be material.

See Note 2 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009 for a summary of our significant accounting policies.

New Accounting Pronouncements

The following disclosure on accounting pronouncements includes those that may apply to the historical financial statements.

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-14 to address accounting for arrangements that contain tangible products and software. The amendments in this update clarify what guidance should be utilized in allocating and measuring revenue for products that contain software that is more than incidental to the product as a whole. Currently, products that contain software that is more than incidental to the product as a whole are within the scope of software accounting guidance. Software accounting guidance requires a vendor to use vendor-specific objective evidence (VSOE) of selling price to separate the software from the product and account for the two elements as a multiple-element arrangement. A vendor must sell, or intend to sell, a particular element separately to assert VSOE for that element. Third-party evidence for selling price is not allowed under the software accounting model. If a vendor does not have VSOE for the undelivered elements in the arrangement, the revenue associated with both the delivered and undelivered elements is combined into one unit of accounting. Any revenue attributable to the delivered elements is then deferred and recognized at a later date, which in many cases is as the undelivered elements are delivered by the vendor. This ASU addresses concerns that the current accounting model may not appropriately reflect the economics of the underlying transactions because no revenue is recognized for some products for which the vendor has already completed the related performance. In addition, this ASU addresses the concern that more software enabled products fall within the scope of the current software accounting model than was originally intended because of ongoing technical advancements. The amendments in the update are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted, however, if early adoption is elected, we would be required to apply the amendments retrospectively from the beginning of the fiscal year of adoption and make specific disclosures. We have not yet adopted this ASU, and we are currently evaluating the impact it may have on our consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-13 to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined accounting unit. Current accounting guidance requires a vendor to use VSOE or third-party evidence (TPE) of selling price to separate deliverables in a multiple-deliverable arrangement. VSOE of selling price is the price charged for a deliverable when it is sold separately or, for a deliverable not yet being sold separately, the price established by management with the appropriate authority. If a vendor does not have VSOE for the undelivered elements in the arrangement, the revenue associated with both the delivered and undelivered elements is combined into one unit of accounting. Any revenue attributable to the delivered products is then deferred and recognized at a later date, which in many cases is as the undelivered elements are delivered by the vendor. An exception to this guidance exists if the vendor has VSOE or TPE of selling price for the undelivered elements in the arrangement but not for the delivered elements. In those situations, the vendor uses the residual value method to allocate revenue to the delivered element, which results in the allocation of the entire discount in the arrangement, if any, to the delivered element. This ASU addresses concerns that the current accounting model may not appropriately reflect the economics of the underlying transactions because sometimes no revenue is recognized for products for which the vendor has already completed the related performance. As a result of this amendment, multiple element arrangements will be separated into multiple units of accounting in more circumstances than under the existing accounting model. This amendment establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price utilized for each deliverable will be based on VSOE if available, TPE if VSOE is not available, or estimated selling price if neither VSOE or TPE evidence is available. The residual method is eliminated. The amendments in the update are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted, however, if early adoption is elected, we would be required to apply the amendments retrospectively from the beginning of the fiscal year of adoption and make specific disclosures. We have not yet adopted this ASU, and we are currently evaluating the impact it may have on our consolidated financial statements.

Recently Adopted Accounting Pronouncements

In January 2010, the FASB issued ASU No. 2010-6 to improve the disclosure and transparency of fair value measurements. These amendments clarify the level of disaggregation required, and the necessary disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The amendments in the update are effective prospectively for interim and annual periods beginning on or after December 15, 2009, except for the separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements, which are effective for fiscal years beginning on or after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. We adopted this ASU beginning January 1, 2010. This adoption did not have a material effect on our consolidated results of operations and financial condition.

Note 2: Cash, Cash Equivalents, and Term Deposit

Our cash and cash equivalents that were accounted for at fair value on a recurring basis on June 30, 2010 were the following:

	Fair Value Measurement Using		
	Quoted Prices in	**Significant Other**	**Significant**

(In thousands) Description	June 30, 2010	Active Markets for Identical Asset (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 78,838	$ 78,838	$	$
	$ 78,838	$ 78,838	$	$

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On June 30, 2010, we had approximately $10.3 million, $13.6 million, $53.4 million, and $1.5 million of cash and cash equivalents in the United States, Europe, Asia and Cayman Islands, respectively. On December 31, 2009, we had approximately $9.3 million, $14.2 million, $2.4 million and $3.1 million of cash and cash equivalents in the United States, Europe, Asia and Cayman Islands, respectively.

On July 2, 2010, we entered into a six-month term deposit cash account at Wells Fargo Bank denominated in Hong Kong dollars. The term will end on December 30, 2010. The term deposit of $49.2 million will earn interest at an annual rate of 0.5%.

On December 31, 2009, we had a six-month term deposit cash account at Wells Fargo Bank denominated in Hong Kong dollars. The term began on July 21, 2009 and ended on January 21, 2010. The term deposit earned interest at an annual rate of 0.57%. The deposit amount and interest receivable related to this account as of December 31, 2009 was $49.2 million and $0.1 million, respectively.

See Note 2 under the caption *Cash, Cash Equivalents, and Term Deposit* in our Annual Report on Form 10-K for further information regarding our accounting principles.

Note 3: Accounts Receivable, Net and Revenue Concentrations

Accounts receivable, net consisted of the following on June 30, 2010 and December 31, 2009:

(In thousands)	**June 30, 2010**	**December 31, 2009**
Trade receivables, gross	$ 59,819	$ 68,458
Allowance for doubtful accounts	(2,735)	(2,423)
Allowance for sales returns	(1,059)	(1,999)
Trade receivables, net	56,025	64,036
Other receivables [(1)]	105	356
Accounts receivable, net	$ 56,130	$ 64,392

(1) Our other receivables balance on June 30, 2010 includes $45 thousand of sales tax receivables and $35 thousand reimbursable from a vendor for quality issues. Our other receivables balance on December 31, 2009 consisted primarily of a reimbursement

due from a vendor for quality issues, sales tax receivables, and interest due from Wells Fargo Bank on our term deposit.

Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts during the three months ended June 30, 2010 and 2009 were the following:

(In thousands) Description	**Balance at Beginning of Period**	**Additions to Costs and Expenses**	**(Write-offs)/ FX Effects**	**Balance at End of Period**
Valuation account for trade receivables				
Three months ended June 30, 2010	$ 2,387	$ 585	$ (237)	$2,735
Three months ended June 30, 2009	$ 2,417	$ 76	$ (95)	$2,398

Changes in the allowance for doubtful accounts during the six months ended June 30, 2010 and 2009 were the following:

(In thousands) Description	**Balance at Beginning of Period**	**Additions to Costs and Expenses**	**(Write-offs)/ FX Effects**	**Balance at End of Period**
Valuation account for trade receivables				
Six months ended June 30, 2010	$ 2,423	$ 715	$ (403)	$2,735
Six months ended June 30, 2009	$ 2,439	$ 155	$ (196)	$2,398

The additions to the allowance for doubtful accounts during the three and six months ended June 30, 2010 were composed primarily of the write-down of nearly the entire balance due from two former customers.

Sales Returns

The allowance for sales returns balance on June 30, 2010 and December 31, 2009 contained reserves for items returned prior to the end of the period, but that were not completely processed, and therefore not yet removed from the allowance for sales returns balance. We estimate that if these returns had been fully processed the allowance for sales returns balance would have been approximately $0.7 million and $1.4 million on June 30, 2010 and December 31, 2009, respectively. The value of these returned goods was included in our inventory balance on June 30, 2010 and December 31, 2009.

Significant Customers

During the three and six months ended June 30, 2010 and 2009, we had net sales to two significant customers, that when combined with their subcontractors, each totaled to more than 10% of our net sales as follows:

	Three Months Ended June 30,			
	2010		**2009**	
	$ (thousands)	**% of Net Sales**	**$ (thousands)**	**% of Net Sales**
Customer A	$ 8,761	11.1%	$20,720	26.5%
Customer B	$11,910	15.1%	$ 7,048	9.0%

	Six Months Ended June 30,			
	2010		**2009**	
	$ (thousands)	**% of Net Sales**	**$ (thousands)**	**% of Net Sales**
Customer A	$19,257	12.8%	$37,272	24.9%
Customer B	$19,916	13.3%	$15,359	10.3%

Trade receivables with these customers were the following on June 30, 2010 and December 31, 2009:

	June 30, 2010		**December 31, 2009**	
	$ (thousands)	**% of Accounts receivable, net**	**$ (thousands)**	**% of Accounts Receivable, net**
Customer A	$5,145	9.2%	$7,006	10.9%
Customer B	$5,673	10.1%	$6,516	10.1%

We had a third customer that accounted for greater than 10% of accounts receivable, net on December 31, 2009, but did not account for greater than 10% of net sales for the three and six months ended June 30, 2010 or 2009. Trade receivables with this customer amounted to $6,866 thousand, or 10.7%, of our accounts receivable, net on December 31, 2009.

The loss of these customers or any other customer, either in the United States or abroad, due to their financial weakness or bankruptcy, or our inability to obtain orders or maintain our order volume with them, may have a material effect on our financial condition, results of operations and cash flows.

See Note 2 under the captions *Revenue Recognition and Sales Allowances* and *Financial Instruments* in our Annual Report on Form 10-K for further information regarding our accounting principles.

Note 4: Inventories, Net and Significant Suppliers

Inventories, net consisted of the following on June 30, 2010 and December 31, 2009:

	June 30,	**December 31,**

(In thousands)	**2010**	**2009**
Components	$ 7,944	$ 7,277
Finished goods	37,944	35,420
Reserve for excess and obsolete inventory	(1,961)	(1,750)
Inventories, net	$ 43,927	$ 40,947

Reserve for Excess and Obsolete Inventory

Changes in the reserve for excess and obsolete inventory during the three months ended June 30, 2010 and 2009 were composed of the following:

(In thousands) Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Sell Through [(1)]	Write-offs/FX Effects	Balance at End of Period
Reserve for excess and obsolete inventory:					
Three Months Ended June 30, 2010	$ 1,928	$ 846	$ (310)	$ (503)	$ 1,961
Three Months Ended June 30, 2009	$ 1,574	$ 1,067	$ (204)	$ (330)	$ 2,107

Changes in the reserve for excess and obsolete inventory during the six months ended June 30, 2010 and 2009 were composed of the following:

(In thousands) Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Sell Through [(1)]	Write-offs/FX Effects	Balance at End of Period
Reserve for excess and obsolete inventory:					
Six Months Ended June 30, 2010	$ 1,750	$ 1,605	$ (423)	$ (971)	$ 1,961
Six Months Ended June 30, 2009	$ 1,535	$ 1,937	$ (333)	$ (1,032)	$ 2,107