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.

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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,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**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	$	$

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

(1) This column represents the gross book value of inventory items sold during the period that had been previously written down to zero net book value. Sell through is the result of differences between our judgment concerning the salability of inventory items

during the excess and obsolete inventory review process and our subsequent experience.

Inventory write-downs for excess and obsolescence are a normal part of our business and result primarily from product life cycle estimation variances.

See Note 2 under the caption *Inventories* in our Annual Report on Form 10-K for further information regarding our accounting principles.

Significant Suppliers

We purchase integrated circuits, used principally in our wireless control products, from two main suppliers. The total purchased from one of these suppliers was greater than 10% of our total inventory purchases. In addition, our purchases from three component and finished good suppliers each amounted to greater than 10% of our total inventory purchases.

During the three months ended June 30, 2010 and 2009, the amounts purchased from these four suppliers were the following:

	Three Months Ended June 30,			
	2010		2009	
	$ (thousands)	% of Total Inventory Purchases	$ (thousands)	% of Total Inventory Purchases
Integrated circuit supplier A	$ 7,053	14.6%	$ 7,321	14.8%
Component and finished good supplier A	10,701	22.2%	12,645	25.6%
Component and finished good supplier B	11,023	22.9%	12,259	24.8%
Component and finished good supplier C	3,858	8.0%	6,912	14.0%

During the six months ended June 30, 2010 and 2009, the amounts purchased from these four suppliers were the following:

	Six Months Ended June 30, 2010		2009	
	$ (thousands)	% of Total Inventory Purchases	$ (thousands)	% of Total Inventory Purchases
Integrated circuit supplier A	$15,122	16.2%	$13,615	14.8%
Component and finished good supplier A	20,154	21.5%	23,322	25.3%
Component and finished good supplier B	18,590	19.9%	21,490	23.3%
Component and finished good supplier C	9,878	10.5%	14,480	15.7%

The total accounts payable to each of these suppliers on June 30, 2010 and December 31, 2009 were the following:

	June 30, 2010		December 31, 2009	
	$ (thousands)	% of Accounts Payable	$ (thousands)	% of Accounts Payable
Integrated circuit supplier A	$ 4,030	9.6%	$ 3,613	9.1%
Component and finished good supplier A	10,244	24.5%	8,290	21.0%
Component and finished good supplier B	11,054	26.4%	11,887	30.1%
Component and finished good supplier C	3,685	8.8%	6,760	17.1%

We have identified alternative sources of supply for these integrated circuits, components, and finished goods; however, there can be no assurance that we will be able to continue to obtain these inventory purchases on a timely basis. We generally maintain inventories of our integrated circuits, which may be utilized to mitigate, but not eliminate, delays resulting from supply interruptions. An extended interruption, shortage or termination in the supply of any of the components used in our products, a reduction in their quality or reliability, or a significant increase in the prices of components, would have an adverse effect on our operating results, financial condition and cash flows.

Minimum Inventory Purchase Obligations

On June 30, 2010, we had contractual obligations to purchase $35.6 million of inventory over the subsequent five years.

Note 5: Goodwill and Intangible Assets, Net

Goodwill

Goodwill related to the domestic component was the result of our acquisition of a remote control company in 1998 and a software company in 2004. Goodwill related to our international component resulted from the acquisition of remote control distributors in the UK in 1998, Spain in 1999 and France in 2000 and the acquisition of certain assets and intellectual property from Zilog, Inc. during the first quarter of 2009.

The goodwill allocated to our domestic and international components on June 30, 2010 and the changes in the carrying amount of goodwill during the six months ended June 30, 2010 are the following:

(In thousands)	Domestic	International	Total
Balance on December 31, 2009	$ 8,314	$ 5,410	$ 13,724
Goodwill acquired during the period			
Goodwill adjustments [1]		(320)	(320)
Balance on June 30, 2010	$ 8,314	$ 5,090	$ 13,404

(1) The adjustment recorded in international goodwill during the six months ended June 30, 2010, resulted from fluctuation of the foreign currency exchange rates used to translate the balance into U.S. dollars.

See Note 2 under the captions *Goodwill* and *Fair-Value Measurements* in our Annual Report on Form 10-K for further information regarding our accounting principles and the valuation methodology utilized.

Intangible Assets, Net
The components of intangible assets, net on June 30, 2010 and December 31, 2009 are listed below:

	June 30, 2010			December 31, 2009		
(In thousands)	**Gross**	**Accumulated Amortization**	**Net**	**Gross**	**Accumulated Amortization**	**Net**
Carrying amount[1]:						
Distribution rights (10 years)	$ 353	$ (47)	$ 306	$ 411	$ (54)	$ 357
Patents (10 years)	8,167	(4,245)	3,922	7,810	(3,925)	3,885
Trademark and trade names (10 years)	840	(483)	357	840	(441)	399
Developed and core technology (5-15 years)[2]	3,500	(321)	3,179	3,500	(204)	3,296
Capitalized software development costs (1-2 years)	1,771	(929)	842	1,420	(704)	716
Customer relationships (15 years)[3]	3,100	(284)	2,816	3,100	(181)	2,919
Total carrying amount	$ 17,731	$ (6,309)	$ 11,422	$ 17,081	$ (5,509)	$ 11,572

(1) This table excludes fully amortized intangible assets of $7.6 million and $7.6 million on June 30, 2010 and December 31, 2009, respectively.

(2) During the first quarter of 2009, we purchased core technology from Zilog, Inc. valued at $3.5 million, which is being amortized ratably over fifteen years. Refer to Note 17 for further discussion

regarding the purchase.

(3) During the first quarter of 2009, we purchased customer relationships from Zilog, Inc. valued at $3.1 million, which are being amortized ratably over fifteen years. Refer to Note 17 for further discussion regarding the purchase.

Amortization expense is recorded in selling, general and administrative expenses, except amortization expense related to capitalized software development costs which is recorded in cost of sales. Amortization expense by income statement caption for the three and six months ended June 30, 2010 and 2009 is the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2010**	**2009**	**2010**	**2009**
Cost of sales	$ 109	$ 101	$ 225	$ 207
Selling, general and administrative	312	383	623	707
Total amortization expense	$ 421	$ 484	$ 848	$ 914

The estimated timing of future amortization expense related to our intangible assets on June 30, 2010 is the following:

(In thousands)	
2010 (remaining 6 months)	$ 940
2011	1,765
2012	1,394
2013	1,303
2014	1,282
Thereafter	4,738
Total	$ 11,422

Intangibles Measured at Fair Value on a Nonrecurring Basis
We recorded impairment charges related to our intangible assets of $7 thousand during the six months ended June 30, 2010 and 2009. Impairment charges are recorded in selling, general and administrative expenses as a component of amortization expense, except impairment charges related to capitalized software development costs which are recorded in cost of sales. The fair value adjustments for intangible assets measured at fair value on a nonrecurring basis during the six months ended June 30, 2010 were comprised of the following:

		Fair Value Measurement Using			
(In thousands)	**Six Months Ended**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Gains (Losses)**
Description	**June 30, 2010**				
Patents and trademarks	$ 4,279	$	$	$ 4,279	$ (7)

We disposed of 1 patent and 8 trademarks with an aggregate carrying amount of $7 thousand resulting in impairment charges of $7 thousand during the six months ended June 30, 2010. We disposed of 8 patents and 10 trademarks with an aggregate carrying amount of $7 thousand during the six months ended June 30, 2009. These assets no longer held any probable future economic benefits and were written-off.
See Note 2 under the captions *Long-Lived Assets and Intangible Assets Impairment*, *Capitalized Software Development Costs*, and *Fair-Value Measurements* in our Annual Report on Form 10-K for further information regarding our accounting principles and valuation methodology utilized.

Note 6: Income Taxes

We utilize our estimated annual effective tax rate to determine our provision for income taxes for interim periods. The income tax provision is computed by taking the estimated annual effective tax rate and multiplying it by the year-to-date pre-tax book income. We recorded income tax expense of $2.5 million and $2.2 million for the three months ended June 30, 2010 and 2009, respectively. Our effective tax rate was 34.7% and 36.4% during the three months ended June 30, 2010 and 2009, respectively. We recorded income tax expense of $3.5 million and $2.7 million for the six months ended June 30, 2010 and 2009, respectively. Our effective tax rate was 34.7% and 36.8% during the six months ended June 30, 2010 and 2009, respectively. The decrease in our effective tax rate during the six months ended June 30, 2010 as compared to the six months ended June 30, 2009 is the result of a decrease in the state effective tax rate coupled with a decrease in interest expense on tax contingencies.
On June 30, 2010, we had gross unrecognized tax benefits of approximately $3.0 million, including interest and penalties, of which approximately $2.4 million would affect the annual effective tax rate if these tax benefits are realized. Further, we are unaware of any positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase within the next twelve months. However, based on federal, state and foreign statute expirations in various jurisdictions, we anticipate a decrease in unrecognized tax benefits of approximately $0.5 million within the next twelve months.
We have elected to classify interest and penalties as a component of tax expense. Accrued interest and penalties of $0.3 million and $0.2 million on June 30, 2010 and December 31, 2009, respectively, are included in our unrecognized tax benefits.
We file income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. On June 30, 2010, the open statutes of limitations in our significant tax jurisdictions are as follows: federal and state are 2005 through 2009 and non-U.S. are 2001 through 2009. On June 30, 2010, our gross unrecognized tax benefits of

$3.0 million are classified as long term because we do not anticipate payment of cash related to those unrecognized tax benefits within one year.

See Note 2 under the caption *Income Taxes* in our Annual Report on Form 10-K for further information regarding our accounting principles.

Note 7: Other Accrued Expenses

The components of other accrued expenses on June 30, 2010 and December 31, 2009 are listed below:

(In thousands)	June 30, 2010	December 31, 2009
Accrued freight	$ 1,483	$ 1,525
Accrued professional fees	766	1,568
Accrued advertising and marketing	550	589
Deferred income taxes	191	483
Accrued third-party commissions	331	301
Accrued sales taxes and VAT	620	845
Tooling [1]	383	124
Sales tax refundable to customers		454
Legal settlement		575
Other	2,080	2,075
Total other accrued expenses	$ 6,404	$ 8,539

[1] The tooling accrual balance relates to amounts capitalized within fixed assets on June 30, 2010 and December 31, 2009.

Note 8: Revolving Credit Line

On January 8, 2010, we entered into a new $15 million unsecured revolving credit line with U.S. Bank (Credit Facility), expiring on October 31, 2011. Amounts available for borrowing under the Credit Facility are reduced by the balance of any outstanding import letters of credit and are subject to certain quarterly financial covenants related to our cash flow, fixed charges, quick ratio, and net income. We were in compliance with the quarterly financial covenants at June 30, 2010.

Under the Credit Facility, we may elect to pay interest based on the bank s prime rate or LIBOR plus a fixed margin of 1.8%. The applicable LIBOR (1, 3, 6, or 12-month LIBOR) corresponds with the loan period we select. On June 30, 2010, the 12-month LIBOR plus the fixed margin was 3.0% and the bank s prime rate was 3.25%. If a LIBOR rate loan is prepaid prior to the completion of the loan period, we must pay the bank the difference between the interest the bank would have earned had prepayment not occurred and the interest the bank actually earned. We may prepay prime rate loans in whole or in part at any time without a premium or penalty.

Presently, we have no debt under this Credit Facility; however, we cannot make any assurances that we will not need to borrow amounts in the future. If this or any other facility is not available to us at a time when we need to borrow, we would have to use our cash reserves, including potentially repatriating cash from foreign jurisdictions, which may have a material adverse effect on our operating results, financial position and cash flows.

Note 9: Commitments and Contingencies

Indemnifications

We indemnify our directors and officers to the maximum extent permitted under the laws of the State of Delaware and we have entered into Indemnification Agreements with each of our directors and executive officers. In addition, we insure our individual directors and officers against certain claims and attorney s fees and related expenses incurred in connection with the defense of such claims. The amounts and types of coverage may vary from period to period as dictated by market conditions. Management is not aware of any matters that require indemnification of its officers or directors.

Fair Price Provisions and Other Anti-Takeover Measures

Our Restated Certificate of Incorporation, as amended, contains certain provisions restricting business combinations with interested stockholders under certain circumstances and imposing higher voting requirements for the approval of certain transactions (fair price provisions). Any of these provisions may delay or prevent a change in control.

The fair price provisions require that holders of at least two-thirds of our outstanding shares of voting stock approve certain business combinations and significant transactions with interested stockholders.

Product Warranties

Changes in the liability for product warranty claim costs are presented below:

(In thousands) Description	Balance at Beginning of Period	Accruals for Warranties Issued During the Period	Settlements (in Cash or in Kind) During the Period	Balance at End of Period
Six Months Ended June 30, 2010	$ 82	$ (63)[1]	$ (11)	$ 8
Six Months Ended June 30, 2009	$ 90	$	$ (8)	$ 82

(1) The reduction in the liability for product warranty costs during the six months ended June 30, 2010 was composed of the reversal of a liability made during the year ended December 31, 2007 related to a specific customer and warranty issue. During the quarter ended June 30, 2010, it became apparent that the customer did not have any further claims and the accrual was reversed.

Litigation

In 2002, one of our subsidiaries (One For All France S.A.S.) brought an action against a former distributor of the subsidiary s products seeking a recovery of accounts receivable. The distributor filed a counterclaim against our subsidiary seeking payment for amounts allegedly owed for administrative and other services rendered by the distributor for our subsidiary. In January 2005, the parties agreed to include in that action all claims between the distributor and two of our other subsidiaries, Universal Electronics BV and One For All Iberia SL. As a result, the single action covers all claims and counterclaims between the various parties. The parties further agreed that, before any judgment is paid, all disputes between the various parties would be concluded. These additional claims involve nonpayment for products and damages resulting from the alleged wrongful termination of agency agreements. On March 15, 2005, the court in one of the litigation matters brought by the distributor against one of our subsidiaries, rendered judgment against our subsidiary and awarded damages and costs to the distributor in the amount of approximately $102,000. The amount of this judgment was charged to operations during the second quarter of 2005 and has been paid. With respect to the remaining matters before the court, we were awaiting the expert to finalize and file his pre-trial report with the court. In late June 2010, the parties agreed to settle the various lawsuits between them and a confidential Settlement Agreement has been prepared and is in the process of being signed by the parties. When fully signed, each party will dismiss their respective actions against the other and the distributor will pay our subsidiary an immaterial settlement amount.

On April 8, 2010, we received a letter from attorneys representing Remotech, LLC, informing us that on April 7, 2010, Remotech filed a patent infringement complaint against us with the U.S. District Court, Southern District of Florida, West Palm Beach Division, claiming that our Remote Extender product infringes Remotech s patent. The Remotech patent expired on December 24, 2006. We were not served with the complaint, and thus no response was due from us. Nevertheless, we contacted Remotech s attorneys and advised them that our Remote Extender product does not infringe the Remotech patent and that the first sale of our product occurred after the expiration date of the Remotech patent. As such, we have demanded that the Remotech attorneys withdraw the complaint against us with no further action on our part. In May 2010, Remotech filed a motion asking the Court to dismiss its complaint against us and on May 21, 2010, the Court entered its order dismissing the action.

There are no other pending legal proceedings, other than litigation that is incidental to the ordinary course of our business, to which we or any of our subsidiaries is a party or of which our respective property is the subject. We do not believe that any of the claims made against us in any of the pending matters have merit and we intend to vigorously defend ourselves against them.

Long-Term Incentive Plan

Our Compensation Committee awarded a discretionary cash bonus of $1.0 million, to be paid out quarterly during 2009 and 2010. The Compensation Committee made this decision after reviewing the economic environment and our relative financial and operating performance. The Compensation Committee believes this bonus was in alignment with our stockholders interests as well as our performance, alignment and retention objectives. Each participant s earned award vests in eight equal quarterly installments beginning March 31, 2009 and ending December 31, 2010. Approximately $0.3 million and $0.1 million was paid and expensed, respectively, during the six months ended June 30, 2010 to our executive management team. On June 30, 2010 and December 31, 2009, $0.1 million and $0.3 million, respectively, have been included in accrued compensation for this discretionary bonus. In the event a participant terminates their employment during the remaining service period (July 1, 2010 through December 31, 2010), they will forfeit their right to any remaining installments where the payment date has not yet occurred.

Non-Qualified Deferred Compensation Plan

We have adopted a non-qualified deferred compensation plan for the benefit of a select group of highly compensated employees. For each plan year a participant may elect to defer compensation in fixed dollar amounts or percentages subject to the minimums and maximums established under the plan. Generally, an election to defer compensation is irrevocable for the entire plan year. A participant is always fully vested in their elective deferrals and may direct these funds into various investment options available under the plan. These investment options are utilized for measurement purposes only, and may not represent the actual investment made by us. In this respect, the participant is an unsecured creditor of ours. On June 30, 2010 and December 31, 2009, the amounts deferred under the plan were immaterial to our financial statements.

Defined Benefit Plan

Our subsidiary in India maintains a defined benefit pension plan (India Plan) for local employees, which is consistent with local statutes and practices. The India Plan was adequately funded as of June 30, 2010 based on its latest actuarial report. The India Plan has an independent external manager that advises us of the appropriate funding contribution requirements to which we comply. On June 30, 2010, approximately 30 percent of our employees in India had qualified for eligibility. Generally, an employee must be employed by the company for a minimum of five years before becoming eligible. At the time of eligibility we are liable, on termination, resignation or retirement, to pay the employee an amount equal to 15 days salary for each year of service completed. The total amount of liability outstanding on June 30, 2010 and December 31, 2009 for the India Plan was not material. During the three and six months ended June 30, 2010 and 2009, the net periodic benefit costs were also not material.

Note 10: Treasury Stock

During the six months ended June 30, 2010 and 2009, we repurchased 355,254 and 216,477 shares of our common stock at a cost of $7.3 million and $3.9 million, respectively. Repurchased shares are recorded as shares held in treasury at cost. We generally hold these shares for future use as our management and Board of Directors deem appropriate, including compensating our outside directors. During the six months ended June 30, 2010 and 2009, we issued 14,583 and 12,500 shares, respectively, to outside directors for services performed (see Note 13).

On February 11, 2010, our Board of Directors authorized management to continue repurchasing up to an additional 1,000,000 shares of our issued and outstanding common stock. Repurchases may be made whenever we deem a repurchase is a good use of our cash and the price to be paid is at or below a threshold approved by our Board. As of June 30, 2010, we have repurchased 322,688 shares of our common stock under this authorization, leaving 677,312 shares available for repurchase.

Note 11: Comprehensive Income

The components of comprehensive income are listed below:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2010**	**2009**	**2010**	**2009**
Net income	$ 4,777	$ 3,816	$ 6,613	$ 4,612
Other comprehensive (loss) income:				
Foreign currency translations [1]	(3,361)	2,084	(5,481)	216
Comprehensive income	$ 1,416	$ 5,900	$ 1,132	$ 4,828

(1) The foreign currency translation loss of $5.5 million for the six months ended June 30, 2010 was due to the strengthening of the U.S. dollar against the Euro. The foreign currency translation gain of $0.2 million for the six months ended June 30, 2009 was due to the weakening of the U.S. dollar against the Euro. The U.S. dollar/Euro spot rate was 1.23 and 1.43 on June 30, 2010 and December 31, 2009, respectively, and 1.40 and 1.39 on June 30, 2009 and December 31, 2008,

respectively.

See Note 2 under the caption *Foreign Currency Translation and Foreign Currency Transactions* in our Annual Report on Form 10-K for further information regarding our accounting principles.

Note 12: Business Segment and Foreign Operations

Reportable Segment

An operating segment, in part, is a component of an enterprise whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Operating segments may be aggregated only to the limited extent permitted by U.S. GAAP. We operate in a single operating and reportable segment.

Foreign Operations

Our sales by geographic area were the following:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(In thousands)	**2010**	**2009**	**2010**	**2009**
Net sales				
United States	$ 41,456	$ 49,639	$ 83,079	$ 96,362
International:				
Asia	14,470	14,259	25,272	24,291
United Kingdom	9,005	3,776	16,371	7,199
Argentina	737	383	1,221	721
Australia	482	255	575	640
France	822	631	1,282	1,388
Germany	1,824	1,215	3,586	2,933
Israel	709	636	1,713	1,005
Italy	320	699	954	1,357
Portugal	1,203	1,214	1,711	1,776
South Africa	2,149	1,799	3,060	3,231
Spain	1,278	1,052	2,579	2,046
All other	4,437	2,745	8,865	6,480
Total international	37,436	28,664	67,189	53,067
Total net sales	$ 78,892	$ 78,303	$ 150,268	$ 149,429

Specific identification of the customer s location was the basis used to attribute revenues to geographic areas.

Long-lived asset information by our domestic and international components is the following:

(In thousands)	June 30, 2010	December 31, 2009
Long-lived tangible assets:		
United States	$ 7,116	$ 7,440
International	3,863	3,693
Total	$ 10,979	$ 11,133

Note 13: Stock-Based Compensation

Stock-based compensation expense for each employee and director is presented in the same income statement caption as their cash compensation. Stock-based compensation expense by income statement caption for the three and six months ended June 30, 2010 and 2009 is the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2010	2009	2010	2009
Cost of sales	$ 14	$ 12	$ 28	$ 14
Research and development	105	111	243	208
Selling, general and administrative	1,228	1,006	2,261	1,859
Stock-based compensation expense before income taxes	$ 1,347	$ 1,129	$ 2,532	$ 2,081

Selling, general and administrative expense includes stock-based compensation related to restricted stock awards granted to outside directors of $0.2 million for the three months ended June 30, 2010 and 2009. During the six months ended June 30, 2010 and 2009, stock-based compensation related to restricted stock awards granted to outside directors was $0.3 million.

Selling, general and administrative expense also includes pre-tax stock-based compensation related to stock option awards granted to outside directors of $0.1 million for the three months ended June 30, 2010 and 2009. During the six months ended June 30, 2010 and 2009, pre-tax stock-based compensation related to options granted to directors was $0.2 million and $0.1 million, respectively.

The income tax benefit from the recognition of stock-based compensation for the three months ended June 30, 2010 and 2009 was $0.5 million and $0.4 million, respectively. The income tax benefit from the recognition of stock-based compensation for the six months ended June 30, 2010 and 2009 was $0.9 million and $0.7 million, respectively.

Stock Options

During the six months ended June 30, 2010, the Compensation Committee and Board of Directors granted 99,900 stock options to our employees with an aggregate grant date fair value of $1.1 million under various stock incentive plans. There were no stock options granted during the three months ended June 30, 2010. The stock options granted to employees during the six months ended June 30, 2010 consisted of the following:

Stock Option Grant Date	Number of Shares Underlying Options	Grant Date Fair Value $ (thousands)	Vesting Period
January 25, 2010	99,900	$ 1,134	4 -Year Vesting Period

			(0% each quarter during year 1 and 8.33% each quarter during years 2-4)
99,900	$	1,134	

The assumptions we utilized in the Black-Scholes option pricing model and the resulting weighted average fair values of stock option grants were the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Weighted average fair value of grants[(1)]	$	$ 7.09	$11.35	$ 7.02
Risk-free interest rate		1.68%	2.37%	1.92%
Expected volatility		47.77%	50.01%	49.48%
Expected life in years		4.85	4.95	4.85

(1) The fair value calculation was based on stock options granted during each respective period.

Stock option activity during the six months ended June 30, 2010 was the following:

	Number of Options (thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value $ (thousands)
Outstanding on December 31, 2009	1,693	$ 18.37		
Granted	100	24.91		
Exercised	(16)	16.62		$ 115
Forfeited/cancelled/expired	(24)	19.45		
Outstanding on June 30, 2010	1,753	$ 18.75	5.25	$ 2,054
Vested and expected to vest on June 30, 2010	1,728	$ 18.69	5.19	$ 2,046
Exercisable on June 30, 2010	1,345	$ 17.99	4.27	$ 1,928

The aggregate intrinsic value in the table above represents the total pre-tax value that option holders would have received had all option holders exercised their options on June 30, 2010. The aggregate intrinsic value is the difference between the closing price of Universal Electronics Inc. s common stock on the last trading day of the second quarter of 2010 and the option exercise price, multiplied by the number of in-the-money options. This amount will change based on the fair market value of our stock. The total intrinsic value of options exercised for the three months ended June 30, 2010 and 2009, was $0.04 million and $1.1 million, respectively. The total intrinsic value of options exercised for the six months ended June 30, 2010 and 2009, was $0.1 million and $1.3 million, respectively.

On June 30, 2010, there was $3.0 million of unrecognized pre-tax stock-based compensation expense related to non-vested stock options which we expect to recognize over a weighted-average period of 2.4 years.

Restricted Stock

During the six months ended June 30, 2010, the Compensation Committee and Board of Directors granted 45,500 restricted stock awards to our employees with an aggregate grant date fair value of $1.1 million under the 2006 Stock Incentive Plan. There were no restricted stock grants during the three months ended June 30, 2010. The restricted stock awards granted to employees during the six months ended June 30, 2010 consisted of the following:

Restricted Stock Grant Date	**Number of Shares Granted**	**Grant Date Fair Value $ (thousands)**		**Vesting Period**
January 25, 2010	45,500	$	1,133	4-Year Vesting Period (0% each quarter during year 1 and 8.33% each quarter during years 2-4)
	45,500	$	1,133	

Non-vested restricted stock award activity during the six months ended June 30, 2010 (including restricted stock issued to directors as described in Note 10) was the following:

	Shares Granted (thousands)	Weighted-Average Grant Date Fair Value
Non-vested on December 31, 2009	280	$ 16.54
Granted	45	24.91
Vested	(81)	18.36
Forfeited		
Non-vested on June 30, 2010	244	$ 17.50

On June 30, 2010, we expect to recognize $4.0 million of unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards over a weighted-average period of 2.1 years.

See Note 2 under the caption *Stock-Based Compensation* in our Annual Report on Form 10-K for further information regarding our accounting principles.

Note 14: Other (Expense) Income, Net

The components of other (expense) income, net for the three and six months ended June 30, 2010 and 2009 are the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2010**	**2009**	**2010**	**2009**
Net (loss) gain on foreign currency exchange contracts[1]	$ (272)	$ 128	$ (306)	$ (504)
Net gain on foreign currency exchange transactions	247	53	321	303
Other income	4	1	7	15
Other (expense) income, net	$ (21)	$ 182	$ 22	$ (186)

(1) This represents the losses and gain incurred on foreign currency hedging derivatives (see Note 16 for further details).

Note 15: Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and dilutive potential common shares, which includes the dilutive effect of stock options and restricted stock grants. Dilutive potential common shares for all periods presented are computed utilizing the treasury stock method.

In the computation of diluted earnings per common share for the three months ended June 30, 2010 and 2009, we have excluded 527,587 and 750,900 stock options, respectively, with exercise prices greater than the average market price of the underlying common stock, because their inclusion would have been anti-dilutive. Furthermore, for the three months ended June 30, 2010 and 2009, we have excluded 195,492 and 266,945 of unvested shares of restricted stock, respectively, whose combined unamortized fair value and excess tax benefits were greater in each of those periods than the average market price of the underlying common stock, as their effect would be anti-dilutive.

In the computation of diluted earnings per common share for the six months ended June 30, 2010 and 2009, we have excluded 473,299 and 985,068 stock options, respectively, with exercise prices greater than the average market price of the underlying common stock, because their inclusion would have been anti-dilutive. Furthermore, for the six months ended June 30, 2010 and 2009, we have excluded 198,001 and 225,025 of unvested shares of restricted stock, respectively, whose combined unamortized fair value and excess tax benefits were greater in each of those periods than the average market price of the underlying common stock, as their effect would be anti-dilutive.

Basic and diluted earnings per share for the three and six months ended June 30, 2010 and 2009, are calculated as follows:

(In thousands, except per-share amounts)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
BASIC				
Net income	$ 4,777	$ 3,816	$ 6,613	$ 4,612
Weighted-average common shares outstanding	13,601	13,621	13,650	13,640
Basic earnings per share	$ 0.35	$ 0.28	$ 0.48	$ 0.34
DILUTED				
Net income	$ 4,777	$ 3,816	$ 6,613	$ 4,612
Weighted-average common shares outstanding for basic	13,601	13,621	13,650	13,640
Dilutive effect of stock options and restricted stock	328	360	361	267
Weighted-average common shares outstanding on a diluted basis	13,929	13,981	14,011	13,907
Diluted earnings per share	$ 0.34	$ 0.27	$ 0.47	$ 0.33

Note 16: Derivatives

Derivatives Measured at Fair Value on a Recurring Basis

We are exposed to market risks from foreign currency exchange rates, which may adversely affect our operating results and financial position. Our foreign currency exposures are primarily concentrated in the Euro, British Pound, and Hong Kong dollar. We periodically enter into foreign currency exchange contracts with terms normally lasting less than nine months to protect against the adverse effects that exchange-rate fluctuations may have on our foreign currency-denominated receivables, payables, cash flows and reported income. Derivative financial instruments are used to manage risk and are not used for trading or other speculative purposes. We do not use leveraged derivative financial instruments and these derivatives have not qualified for hedge accounting.

The gains and losses on foreign currency hedging derivatives are recorded as foreign currency exchange contract gains or losses in other (expense) income, net (see Note 14). Derivatives are recorded on the balance sheet at fair value. The estimated fair value of our derivative financial instruments represent the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices.

The fair value of our derivatives are determined utilizing level 2 inputs in the fair value hierarchy. See Note 2 under the captions *Derivatives* and *Fair-Value Measurements* in our Annual Report on Form 10-K for further information concerning the accounting principles and valuation methodology utilized.

The following table sets forth our derivative that was accounted for at fair value on a recurring basis on June 30, 2010:

	Fair Value Measurement Using		
	Quoted Prices in Active Markets	Significant Other Observable	Significant Unobservable

(In thousands) Description	June 30, 2010	for Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Foreign currency exchange futures contract	$ 11	$	$ 11	$
	$ 11	$	$ 11	$

We held foreign currency exchange contracts which resulted in a net pre-tax loss of approximately $0.3 million and a net pre-tax gain of approximately $0.1 million for the three months ended June 30, 2010 and 2009, respectively. For the six months ended June 30, 2010 and 2009, we had a net pre-tax loss of approximately $0.3 million and $0.5 million, respectively.

Futures Contracts

We held one USD/Euro futures contract with a notional value of $2.0 million and a forward rate of $1.21795 USD/Euro on June 30, 2010. We held the Euro position on this contract, which settled on July 30, 2010. The gain on this contract as of June 30, 2010 was $11 thousand and is included in prepaid expenses and other current assets.

We held one USD/Euro futures contract with a notional value of $1.5 million and a forward rate of $1.4386 USD/Euro on December 31, 2009. We held the Euro position on this contract, which settled on January 15, 2010. The loss on this contract as of December 31, 2009 was $5 thousand and was included in other accrued expenses. This contract was settled at a gain of $11 thousand resulting in a gain of $16 thousand in January 2010.

Put Options

In July 2009, we entered into a USD/GBP put option with a notional value of $4.3 million. That contract expired on December 31, 2009 and settled on January 5, 2010. The fair value of this put option was approximately $2 thousand on December 31, 2009 and was included in accounts receivable, net (see Note 3).

Note 17: Business Acquisition

On February 18, 2009, we acquired certain patents, intellectual property and other assets related to the universal remote control business from Zilog, Inc. (NASDAQ: ZILG) for approximately $9.5 million in cash. The purchase included Zilog s full library and database of infrared codes, software tools and certain fixed assets. We also hired 116 of Zilog s sales and engineering personnel, including all 107 of Zilog s personnel located in India. In a related transaction, Maxim Integrated Products (NASDAQ: MXIM) acquired two of Zilog s product lines, namely, the hardware portion of Zilog s remote control business and Zilog s secured transaction product line.

We have cross-licensed the remote control technology and intellectual property with Maxim Integrated Products for the purpose of conducting our respective businesses. The arrangement involves an agreement to source silicon chips from Maxim. In addition, during 2009 we agreed to be Maxim s exclusive sales agent, selling the Zilog designs to Zilog s former customers, in return for a sales agency fee. The sales agency fee during the three months ended June 30, 2010 and 2009 was $1.5 million and $1.3 million, respectively. The sales agency fee during the six months ended June 30, 2010 and 2009 was $2.5 million and $1.9 million, respectively. This arrangement was mildly accretive to our earnings in 2009, excluding acquisition costs. During 2010, as the transition from the Zilog chip platform to the Maxim chip platform progresses, we will begin to take over full sales and distribution rights, procuring and selling the chips directly to Zilog s former customers. We anticipate this position will lead to growth in revenue and earnings going forward. Our consolidated financial statements include the operating results of the acquired assets, employees hired, and the related agreement with Maxim from February 18, 2009.

The total purchase price of approximately $9.5 million was allocated to the net assets acquired based on their estimated fair values as follows:

(In thousands)	
Intangible assets:	
Database	$ 3,500
Customer relationships	3,100
Goodwill	2,902
Equipment, furniture and fixtures	44
Purchase price	$ 9,546

Intangible Assets Subject to Amortization

Of the total purchase price, approximately $6.6 million was allocated to the database and customer relationships intangible assets and are subject to amortization.

The database intangible is composed of the estimated fair value of patents, intellectual property and other assets related to Zilog s database of infrared codes, and software tools. When determining the fair value of the database,

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we utilized the cost approach. In our valuation, we estimated the total costs to recreate the database, including the associated opportunity costs (or revenue lost while recreating). We discounted the after-tax cash flows to present value to arrive at our estimate of the fair value of the database. We are amortizing the database on a straight-line basis over an estimated useful life of fifteen years.

The customer relationship intangible is composed of the fair value of customer relationships acquired as a result of the Zilog purchase. We utilized the income approach to estimate the fair value of the customer relationships intangible. We developed after-tax cash flows based on forecasted revenue from these customers assuming a customer attrition rate based on our analysis of customer data for UEI and Zilog. We discounted the after-tax cash flows to present value to arrive at our estimate of the fair value of the customer relationships intangible. We are amortizing the customer relationships intangible on a straight-line basis over an estimated useful life of fifteen years.

Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of the identifiable tangible and intangible assets acquired. Goodwill from this transaction of $2.9 million will not be amortized, but will be analyzed for impairment on at least an annual basis in accordance with U.S. GAAP. We review our goodwill for impairment annually as of December 31st and whenever events or changes in circumstances indicate that an impairment loss may have occurred. We have not recorded any impairment related to the goodwill recognized as a result of the Zilog acquisition. Of the total goodwill recorded, none is expected to be deductible for tax purposes.

The goodwill recognized is attributable to the following value we received from this acquisition:

- This acquisition will expand the breadth and depth of our customer base in both subscription broadcasting and original equipment manufacturing, particularly in Asia.
- We believe integrating Zilog s technologies with and into our own technology will reduce design cycle times, lower costs, and lead to improvements in our integrated circuit design, product quality and overall functional performance.
- The acquisition of former Zilog employees will allow us to leverage their experience to our advantage in the wireless control industry.

Acquisition Costs

We recognized $1.1 million of total acquisition costs related to the Zilog transaction in selling, general and administrative expenses during the three months ended March 31, 2009 and the year ended December 31, 2009. The acquisition costs consisted of primarily legal and investment banking services.

Pro forma Results (Unaudited)

The following unaudited pro forma financial information presents the combined results of our operations and the operations of the acquisition from Zilog as if the acquisition had occurred at January 1, 2009. Adjustments netting $0 and $0.1 million for the three and six months ended June 30, 2009, respectively, have been made to the combined results of operations, primarily reflecting net sales, salary costs and the amortization of purchased intangible assets. The adjustments are net of any related tax effects.

Pro forma results were as follows for the three and six months ended June 30, 2009:

(In thousands)	**Three Months Ended June 30, 2009**	**Six Months Ended June 30, 2009**
Net sales	$ 78,303	$ 149,916
Net income	$ 3,816	$ 4,573
Basic and diluted net income per share:		
Basic	$ 0.28	$ 0.34
Diluted	$ 0.27	$ 0.33

The unaudited pro forma financial information is not intended to represent or be indicative of the consolidated results of operations that would have been achieved had the acquisition actually been completed as of the date presented, and should not be taken as a projection of the future consolidated results of our operations.

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and the related notes that appear elsewhere in this document.

Overview

We have developed a broad line of pre-programmed universal wireless control products and audio-video accessories that are marketed to enhance home entertainment systems. Our customers operate in the consumer electronics market and include OEMs, MSOs (cable and satellite service providers), international retailers, CEDIA (Custom Electronic Design and Installation Association), North American retailers, private labels, and companies in the computing industry. We also sell integrated circuits, on which our software and IR code database is embedded, to OEMs that manufacture wireless control devices, cable converters or satellite receivers for resale in their products. We believe that our universal remote control database contains device codes that are capable of controlling virtually all IR controlled TVs, DVD players, media players, cable converters, audio components and satellite receivers, as well as most other infrared remote controlled devices worldwide.

Beginning in 1986 and continuing today, we have compiled an extensive IR code library that covers over 472,000 individual device functions and over 4,100 individual consumer electronic equipment brand names. Our library is regularly updated with IR codes used in newly introduced video and audio devices. All such IR codes are captured from the original manufacturer s remote control devices or specifications to ensure the accuracy and integrity of the database. We have also developed patented technologies that provide the capability to easily upgrade the memory of the wireless control device by adding IR codes from the library that were not originally included.

We operate as one business segment. We have fourteen subsidiaries located in Argentina, Cayman Islands, China, France, Germany (2), Hong Kong (2), India, Italy, the Netherlands, Singapore, Spain and the United Kingdom.

To recap our results for the six months ended June 30, 2010:

- Our revenue grew 0.6% from $149.4 million for the six months ended June 30, 2009 to $150.3 million for the six months ended June 30, 2010. We acquired new domestic and international customers in our business category which offset the loss of sales from a significant customer who returned to a more traditional dual source arrangement beginning in the first quarter of 2010. This significant customer purchased the majority of its remotes from us in 2009. In addition, sales in our consumer category increased due to improvement in our European retail business and a new partnership agreement with a distributor in the U.S. market.

- Our operating income for the first six months of 2010 increased 38.5% to $10.0 million from operating income of $7.2 million in the first six months of 2009. Our operating margin percentage increased from 4.8% in the first six months of 2009 to 6.7% in the first six months of 2010 due to the increase in our gross margin percentage as well as the decrease in operating expenses as a percentage of revenue. Our gross margin percentage increased from 31.4% in the first six months of 2009 to 32.9% in the first six months of 2010 due primarily to sales mix, as a higher percentage of sales in our business category was comprised of higher-margin products. Operating expenses decreased from 26.6% of revenue for the six months ended June 30, 2009 to 26.3% for the six months ended June 30, 2010.

Our strategic business objectives for 2010 include the following:

- increase our share with existing customers;

- acquire new customers in historically strong regions;

- continue our expansion into new regions, Asia in particular;

- continue to develop industry-leading technologies and products; and

- continue to evaluate potential acquisition and joint venture opportunities that may enhance our business.

We intend the following discussion of our financial condition and results of operations to provide information that will assist in understanding our consolidated financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect our consolidated financial statements.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments 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 and judgments, including those related to revenue recognition, allowance for sales returns and doubtful accounts, warranties, inventory valuation, business combination purchase price allocations, our review for impairment of long-lived assets, intangible assets and goodwill, income taxes and stock-based compensation expense. Actual results may differ from these judgments and estimates, and they may be adjusted as more information becomes available. Any adjustment may be significant.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably may have been used, or if changes in the estimate that are reasonably likely to occur may materially impact the financial statements. We do not believe that there have been any significant changes during the three and six months ended June 30, 2010 to the items that we disclosed as our critical accounting policies and estimates in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for our fiscal year ended December 31, 2009.

Recent Accounting Pronouncements

See Note 1 of Notes to Consolidated Financial Statements for a discussion of new and recently adopted accounting pronouncements.

Results of Operations

Our results of operations as a percentage of net sales for the three and six months ended June 30, 2010 and 2009 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net sales	100%	100%	100%	100%
Cost of sales	65.2	67.4	67.1	68.6
Gross profit	34.8	32.6	32.9	31.4
Research and development expenses	3.2	2.6	3.5	2.8
Selling, general and administrative expenses	22.3	22.7	22.8	23.8
Operating expenses	25.5	25.3	26.3	26.6
Operating income	9.3	7.3	6.6	4.8
Interest income, net	0.0	0.2	0.1	0.2
Other (expense) income, net	(0.0)	0.2	0.0	(0.1)
Income before income taxes	9.3	7.7	6.7	4.9
Provision for income taxes	(3.2)	(2.8)	(2.3)	(1.8)
Net income	6.1%	4.9%	4.4%	3.1%

Three Months Ended June 30, 2010 versus Three Months Ended June 30, 2009:
Net sales by our Business and Consumer lines for the three months ended June 30, 2010 and 2009 were the following:

	Three Months Ended June 30,			
	2010		**2009**	
	$ (millions)	**% of total**	**$ (millions)**	**% of total**
Net sales:				
Business	$ 67.3	85.3%	$ 68.1	87.0%
Consumer	11.6	14.7%	10.2	13.0%
Total net sales	$ 78.9	100.0%	$ 78.3	100.0%

Overview
Net sales for the second quarter of 2010 were $78.9 million, an increase of 0.8% compared to $78.3 million for the second quarter of 2009. Net income for the second quarter of 2010 was $4.8 million or $0.34 per diluted share compared to $3.8 million or $0.27 per diluted share for the second quarter of 2009.
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Net sales in our Business lines (subscription broadcasting, OEM and computing companies) were approximately 85% of net sales in the second quarter of 2010 compared to approximately 87% in the second quarter of 2009. Net sales in our Business lines for the second quarter of 2010 decreased by 1% to $67.3 million from $68.1 million in the second quarter of 2009. This was the result of a significant customer returning to a more traditional dual source arrangement during the first quarter of 2010, impacting both the first and second quarters of 2010. This significant customer purchased the majority of its remotes from us during the first six months of 2009. We were able to offset this loss by acquiring new domestic and international customers.
Net sales in our Consumer lines (One For All® retail, private label and custom installers) were approximately 15% of net sales during the second quarter of 2010 compared to approximately 13% during the second quarter of 2009. Net sales in our Consumer lines increased by 14% to $11.6 million during the second quarter of 2010 from $10.2 million during the second quarter of 2009. International retail sales increased by $2.1 million from $7.5 million during the second quarter of 2009 to $9.6 million during the second quarter of 2010 primarily as a result of the analog-to-digital transition that took place in some European countries. The weakening of both the Euro and the British Pound compared to the U.S. dollar resulted in a decrease in net sales of approximately $0.4 million. Net of this currency effect, international retail sales increased $2.5 million. CEDIA sales decreased by $0.7 million compared to the second quarter of 2009.
Gross profit for the second quarter of 2010 was $27.4 million compared to $25.5 million for the second quarter of 2009. Gross profit as a percentage of sales for the second quarter of 2010 increased to 34.8% from 32.6% during the same period in the prior year, due to the following reasons:

Sales of higher-margin products in both the Business and Consumer categories represented a larger percentage of the overall sales in both categories, which resulted in an increase of 1.9% in the gross margin rate;

A decrease in inventory scrap expense, primarily as a result of a lower return rate in our European retail business, resulted in an increase of 0.7% in the gross margin rate;

A decrease in environmental fees increased the gross profit rate by 0.6%. We received governmental correspondence in the United Kingdom during the second quarter of 2010 indicating that the actual environmental fee assessment for the period 2007 through 2009 was less than what we had accrued and expensed during that period; therefore, we adjusted our environmental fee accrual accordingly during the second quarter of 2010;

An increase in freight expense of $0.5 million due to more air shipments resulted in a decrease of 0.7% in the gross margin rate;

Foreign currency fluctuations caused a decrease of 0.3% in the gross margin rate.

Research and development expenses increased 21.4% from $2.0 million during the second quarter of 2009 to $2.5 million during the second quarter of 2010 due to additional investments in product development.

Selling, general and administrative expenses decreased 0.8% from $17.8 million during the second quarter of 2009 to $17.6 million during the second quarter of 2010. The weakening of the Euro compared to the U.S. dollar resulted in a decrease of $0.4 million. Net of this favorable currency effect, expenses increased by $0.2 million, primarily due to increased bonus expense of $1.0 million and increased bad debt expense of $0.6 million. The bad debt expense was related to two specific customers. Offsetting these increases were personnel costs, which decreased $0.5 million; outside legal fees decreased $0.3 million due to the acquisition of certain assets and operations from Zilog, Inc. that occurred during the first quarter of 2009. In addition, freight and delivery expense decreased by $0.3 million and marketing expense decreased by $0.2 million during the second quarter of 2010 compared to the second quarter of 2009.

During the second quarter of 2010 and 2009, we recorded $18 thousand and $0.1 million of net interest income, respectively.

During the three months ended June 30, 2010, net other expense was $21 thousand as compared to net other income of $0.2 million during the same period in the prior year. Approximately $25 thousand of net other expense during the three months ended June 30, 2010 was the result of a foreign exchange loss, compared to a foreign exchange gain of $0.2 million during the three months ended June 30, 2009.

We recorded income tax expense of $2.5 million during the second quarter of 2010 compared to $2.2 million during the second quarter of 2009. Our effective tax rate was 34.7% for the second quarter of 2010 compared to 36.4% for the second quarter of 2009. The decrease in our effective tax rate was due primarily to lower quarterly interest expense related to tax contingencies as a result of the fourth quarter 2009 settlement of our Dutch tax audit for the years 2002 through 2006. In addition, higher pre-tax income during the second quarter of 2010 compared to the second quarter of 2009 enabled interest expense related to tax contingencies to be absorbed more efficiently.

Six Months Ended June 30, 2010 versus Six Months Ended June 30, 2009:

Net sales by our Business and Consumer lines for the six months ended June 30, 2010 and 2009 were the following:

	Six Months Ended June 30,			
	2010		**2009**	
	$ (millions)	**% of total**	**$ (millions)**	**% of total**
Net sales:				
Business	$ 127.6	84.9%	$ 129.0	86.4%
Consumer	22.7	15.1%	20.4	13.6%
Total net sales	$ 150.3	100.0%	$ 149.4	100.0%

Overview

Net sales during the six months ended June 30, 2010 were $150.3 million, an increase of 0.6% compared to $149.4 million during the six month ended June 30, 2009. Net income for the six months ended June 30, 2010 was $6.6 million or $0.47 per diluted share compared to $4.6 million or $0.33 per diluted share for the six months ended June 30, 2009.

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Net sales in our Business lines (subscription broadcasting, OEM and computing companies) were approximately 85% of net sales during the six months ended June 30, 2010 compared to approximately 86% during the six months ended June 30, 2009. Net sales in our Business lines during the six months ended June 30, 2010 decreased by 1% to $127.6 million from $129.0 million during the six months ended June 30, 2009. This was the result of a significant customer returning to a more traditional dual source arrangement during the first quarter of 2010, impacting both the first and second quarters of 2010. This significant customer purchased the majority of its remotes from us during the first six months of 2009. We were able to offset this loss by acquiring new domestic and international customers.

Net sales in our Consumer lines (One For All® retail, private label and custom installers) were approximately 15% of net sales during the six months ended June 30, 2010 compared to approximately 14% during the six months ended June 30, 2009. Net sales in our Consumer lines increased by 12% to $22.7 million during the six months ended June 30, 2010 from $20.4 million during the same period in the prior year. International retail sales increased by $2.3 million from $15.9 million during the first six months of 2009 to $18.2 million during the first six months of 2010. The strengthening of the British Pound compared to the U.S. dollar resulted in an increase in net sales of approximately $0.1 million. Net of this currency effect, international retail sales increased $2.2 million. North American retail sales increased by $0.9 million compared to the first six months of 2009, as a result of our new partnership agreement with a distributor in the U.S. market. CEDIA sales decreased by $0.9 million compared to the first six months of 2009.

Gross profit for the six months ended June 30, 2010 was $49.5 million compared to $46.9 million for the six months ended June 30, 2009. Gross profit as a percentage of sales for the six months ended June 30, 2010 increased to 32.9% from 31.4% during the same period in the prior year, due to the following reasons:

Sales of higher-margin products in both the Business and Consumer categories represented a larger percentage of the overall sales in both categories, which resulted in an increase of 1.2% in the gross margin rate;

A decrease in inventory scrap expense, primarily as a result of a lower return rate in our European retail business, resulted in an increase of 0.5% in the gross margin rate;

A decrease in environmental fees, increased the gross profit rate by 0.3%. We received governmental correspondence in the United Kingdom during the second quarter of 2010 indicating that the actual environmental fee assessment for the period 2007 through 2009 was less than what we had accrued and expensed during that period; therefore, we adjusted our environmental fee accrual accordingly during the second quarter of 2010;

An increase in freight expense of $0.8 million due to more air shipments resulted in a decrease of 0.6% in the gross margin rate.

Research and development expenses increased 26.4% from $4.2 million during the six months ended June 30, 2009 to $5.3 million during the six months ended June 30, 2010 due to additional investments in product development.

Selling, general and administrative expenses decreased 3.7% from $35.5 million during the six months ended June 30, 2009 to $34.2 million during the six months ended June 30, 2010. Professional service expenses decreased by $1.4 million, due primarily to the non-recurring professional service expenses of approximately $1.1 million related to the acquisition of certain assets and operations from Zilog, Inc. that occurred during the first quarter of 2009. Additionally, personnel costs decreased by $0.6 million and non-billable product development costs decreased by $0.3 million. Partially offsetting these cost decreases were bonus expense and bad debt expense, both increased by $0.6 million during the first six months of 2010 compared to the first six months of 2009. The bad debt expense was related to two specific customers.

In the six months ended June 30, 2010 and 2009, we recorded $0.1 million and $0.3 million of net interest income respectively.

During the six months ended June 30, 2010, net other income was $22 thousand as compared to net other expense of $0.2 million during the same period in the prior year. Approximately $15 thousand of net other income during the six months ended June 30, 2010 was the result of a foreign exchange gain, compared to a foreign exchange loss of $0.2 million during the six months ended June 30, 2009.

We recorded income tax expense of $3.5 million during the six months ended June 30, 2010 compared to $2.7 million during the six months ended June 30, 2009. Our effective tax rate was 34.7% for the six months ended June 30, 2010 compared to 36.8% for the same period in the prior year. The decrease in our effective tax rate was due primarily to lower quarterly interest expense related to tax contingencies as a result of the fourth quarter 2009 settlement of our Dutch tax audit for the years 2002 through 2006. In addition, higher pre-tax income during the second quarter of 2010 compared to the second quarter of 2009 enabled interest expense related to tax contingencies to be absorbed more efficiently.

Earnings per share for the year ending December 31, 2010 is expected to be between $1.20 and $1.28 as compared to the $1.05 per diluted share earned in the year ended December 31, 2009.

Liquidity and Capital Resources

Sources and Uses of Cash:

(In thousands)	Six months ended June 30, 2010	Increase/(Decrease) in cash	Six months ended June 30, 2009
Net cash provided by operating activities	$ 13,729	$ 4,122	$ 9,607
Net cash provided by (used for) investing activities	45,456	107,101	(61,645)
Net cash used for financing activities	(6,948)	(4,783)	(2,165)
Effect of exchange rate changes on cash	(2,415)	(2,757)	342

(In thousands)	June 30, 2010	Increase/(Decrease)	December 31, 2009
Cash and cash equivalents	$ 78,838	$ 49,822	$ 29,016
Working capital	124,850	(2,236)	127,086

Net cash provided by operating activities increased by $4.1 million from $9.6 million during the first six months of 2009 to $13.7 million during the first six months of 2010. The increase in net cash provided by operating activities was partly due to the increase in net income from $4.6 million for the first six months of 2009 to $6.6 million for the first six months of 2010. In addition, our cash conversion cycle improved from 68.9 days at June 30, 2009 to 65.1 days at June 30, 2010.

Net cash provided by (used for) investing activities increased by $107.1 million from cash outflows of $61.6 million during the first six months of 2009 to cash inflows of $45.5 million during the first six months of 2010. The increase in cash provided by (used for) investing activities was primarily due to the maturity of our term deposit resulting in cash inflows of $49.2 million during the first six months of 2010, compared with cash outflows to purchase a term deposit of $49.2 million during the first six months of 2009. In addition, the acquisition of intangible assets and goodwill from Zilog, Inc. during the first six months of 2009 resulted in cash outflows of $9.5 million compared to $0 during the first six months of 2010. Refer to Note 17 for further discussion about our purchase of assets from Zilog, Inc. These relative increases in cash inflows from investing activities were partially offset by an increase in cash utilized to purchase equipment, furniture and fixtures, which resulted in cash outflows of $3.0 million during the first six months of 2010, greater than the cash outflows of $2.2 million recorded during the first six months of 2009.

Net cash used for financing activities increased by $4.8 million from cash outflows of $2.2 million during the first six months of 2009 to cash outflows of $6.9 million during the first six months of 2010. We repurchased a greater number of shares of our common stock during the first six months of 2010 compared to the first six months of 2009.

During the first six months of 2010 we repurchased 355,254 shares of our common stock for $7.3 million compared to our repurchase of 216,477 shares of our common stock for $3.9 million during the first six months of 2009. We hold repurchased shares as treasury stock and they are available for reissue. Presently, except for using a small number of these treasury shares to compensate our outside board members, we have no plans to distribute these shares. However, we may change these plans if necessary to fulfill our on-going business objectives.

On February 11, 2010, our Board of Directors authorized management to continue repurchasing up to an additional 1,000,000 shares of our issued and outstanding common stock. Repurchases may be made to manage dilution created by shares issued under our stock incentive plans or whenever we deem a repurchase is a good use of our cash and the price to be paid is at or below a threshold approved by our Board. As of June 30, 2010, we have purchased 322,688 shares of our common stock, leaving 677,312 shares available for purchase under this authorization.

On January 8, 2010, we entered into a new $15 million unsecured revolving credit line with U.S. Bank (Credit Facility), expiring on October 31, 2011. Amounts available for borrowing under the Credit Facility are reduced by the balance of any outstanding import letters of credit and are subject to certain quarterly financial covenants related to our cash flow, fixed charges, quick ratio, and net income. We were in compliance with the quarterly financial covenants at June 30, 2010.

On June 30, 2010, we had no debt under the Credit Facility; however, we cannot make any assurances that we will not need to borrow amounts in the future. If this or any other facility is not available to us at a time when we need to borrow, we would have to use our cash reserves, including potentially repatriating cash from foreign jurisdictions, which may have a material adverse effect on our operating results, financial position and cash flows.

Contractual Obligations

On June 30, 2010, our contractual obligations were $40.2 million compared to $44.2 million reported in our Annual Report on Form 10-K as of December 31, 2009. The following table summarizes our contractual obligations on June 30, 2010 and the effect these obligations are expected to have on our liquidity and cash flow in future periods.

		Payments Due by Period			
(In thousands)	**Total**	**Less than 1 year**	**1-3 Years**	**4-5 years**	**After 5 years**
Contractual obligations:					
Operating lease obligations	$ 3,601	$ 1,912	$ 1,574	$ 115	$
Purchase obligations[(1)]	36,614	7,614	16,000	13,000	
Total contractual obligations	$ 40,215	$ 9,526	$ 17,574	$ 13,115	$

(1) Purchase obligations include contractual payments to purchase minimum quantities of inventory under vendor agreements.

Liquidity

We have utilized cash provided from operations as our primary source of liquidity, since internally generated cash flows have been sufficient to support our business operations, capital expenditures and discretionary share repurchases. We are able to supplement this near term liquidity, if necessary, with our Credit Facility. For information regarding our Credit Facility, see ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our working capital needs have typically been greatest during the third and fourth quarters when accounts receivable and inventories increase in connection with the fourth quarter holiday selling season. On June 30, 2010, we had $124.9 million of working capital compared to $127.1 million on December 31, 2009.

Our cash balances are held in numerous locations throughout the world, including substantial amounts held outside of the United States. Substantially all of the amounts held outside of the United States may be repatriated to the United States but, under current law, would be subject to United States federal income taxes, less applicable foreign tax credits. Repatriation of some foreign balances is restricted by local laws. We have not provided for the United States federal tax liability on these amounts for financial statement purposes as this cash is considered indefinitely reinvested outside of the United States. Our intent is to meet our domestic liquidity needs through ongoing cash flows, external borrowings, or both. We utilize a variety of tax planning strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed.

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. A term deposit of $49.2 million was entered into on July 2, 2010 and will mature on December 30, 2010. We attempt to mitigate our exposure to interest rate, liquidity, credit and other relevant risks by placing our cash, cash equivalents, and term deposit with financial institutions we believe are high quality.

It is our policy to carefully monitor the state of our business, cash requirements and capital structure. We believe that the cash generated from our operations and funds from our Credit Facility will be sufficient to support our current business operations as well as anticipated growth at least over the next twelve months; however, there can be no assurance that such funds will be adequate for that purpose.

Off Balance Sheet Arrangements

Other than the contractual obligations disclosed above, we do not participate in any off balance sheet arrangements.

Factors That May Affect Financial Condition and Future Results

Forward Looking Statements

We caution that the following important factors, among others (including but not limited to factors discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as those discussed in our 2009 Annual Report on Form 10-K, or in our other reports filed from time to time with the Securities and Exchange Commission), may affect our actual results and may contribute to or cause our actual consolidated results to differ materially from those expressed in any of our forward-looking statements. The factors included here are not exhaustive. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor can we assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Therefore, forward-looking statements should not be relied upon as a prediction of actual future results.

While we believe that the forward-looking statements made in this report are based on reasonable assumptions, the actual outcome of such statements is subject to a number of risks and uncertainties, including the following:

- the failure of our markets or customers to continue growing and expanding in the manner we anticipated;

- the effects of natural or other events beyond our control, including the effects a war or terrorist activities may have on us, the economy or our customers;

- the growth of, acceptance of and the demand for our products and technologies in various markets and geographical regions, including cable, satellite, consumer electronics, retail, digital media/technology, CEDIA, interactive TV, and cellular industries not materializing or growing as we believed;

- our inability to obtain orders or maintain our order volume with new and existing customers;

- our inability to add profitable complementary products which are accepted by the marketplace;

- our inability to continue selling our products or licensing our technologies at higher or profitable margins;

- our inability to continue to maintain our operating costs at acceptable levels through our cost containment efforts;

- the possible dilutive effect our stock incentive programs may have on our earnings per share and stock price;

- our inability to continue to obtain adequate quantities of component parts or secure adequate factory production capacity on a timely basis;

our inability to successfully integrate any strategic business transaction; and

other factors listed from time to time in our press releases and filings with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including interest rate and foreign currency exchange rate fluctuations. We have established policies, procedures and internal processes governing our management of these risks and the use of financial instruments to mitigate our risk exposure.

On January 8, 2010, we entered into a new $15 million unsecured revolving credit line with U.S. Bank (Credit Facility), expiring on October 31, 2011. Amounts available for borrowing under the Credit Facility are reduced by the balance of any outstanding import letters of credit and are subject to certain quarterly financial covenants related to our cash flow, fixed charges, quick ratio, and net income. We were in compliance with the quarterly financial covenants at June 30, 2010.

Under the Credit Facility, we may elect to pay interest based on the bank s prime rate or LIBOR plus a fixed margin of 1.8%. The applicable LIBOR (1, 3, 6, or 12-month LIBOR) corresponds with the loan period we select. On June 30, 2010, the 12-month LIBOR plus the fixed margin was 3.0% and the bank s prime rate was 3.25%. If a LIBOR rate loan is prepaid prior to the completion of the loan period, we must pay the bank the difference between the interest the bank would have earned had prepayment not occurred and the interest the bank actually earned. We may prepay prime rate loans in whole or in part at any time without a premium or penalty.

On June 30, 2010 we had no debt; however, we cannot make any assurances that we will not need to borrow amounts under this Credit Facility. If this or any other facility is not available to us at a time when we need to borrow, we would have to use our cash reserves, including potentially repatriating cash from foreign jurisdictions, which may have a material adverse effect on our operating results, financial position, and cash flows.

On June 30, 2010, we had wholly-owned subsidiaries in Argentina, Cayman Islands, China, France, Germany, Hong Kong, India, Italy, the Netherlands, Singapore, Spain, and the United Kingdom. We are exposed to foreign currency exchange rate risk inherent in our sales commitments, anticipated sales, anticipated purchases, assets and liabilities denominated in currencies other than the U.S. dollar. The most significant foreign currencies to our operations for the three and six months ended June 30, 2010 were the Euro and the British Pound. For most currencies, we are a net receiver of the foreign currency (we receive more foreign currency than we pay out). Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, will negatively affect our net sales and gross margins as expressed in U.S. dollars. Even where we are a net receiver, a weaker U.S. dollar may adversely affect certain expense figures taken alone.

From time to time, we enter into foreign currency exchange agreements to manage the foreign currency exchange rate risks inherent in our forecasted income and cash flows denominated in foreign currencies. The terms of these foreign currency exchange agreements normally last less than nine months. We recognize the gains and losses on these foreign currency contracts in the same period as the remeasurement losses and gains of the related foreign currency-denominated exposures.

It is difficult to estimate the impact of fluctuations on reported income, as it depends on the opening and closing rates, the average net balance sheet positions held in a foreign currency and the amount of income generated in local currency. We routinely forecast what these balance sheet positions and income generated in local currency may be and we take steps to minimize exposure as we deem appropriate. Alternatively, we may choose not to hedge the foreign currency risk associated with our foreign currency exposures, primarily if such exposure acts as a natural foreign currency hedge for other offsetting amounts denominated in the same currency or the currency is difficult or too expensive to hedge. We do not enter into any derivative transactions for speculative purposes.

The sensitivity of earnings and cash flows to the variability in exchange rates is assessed by applying an approximate range of potential rate fluctuations to our assets, obligations and projected results of operations denominated in foreign currency with all other variables held constant. The analyses cover all of our foreign currency contracts offset by the underlying exposures. Based on our overall foreign currency rate exposure on June 30, 2010, we believe that movements in foreign currency rates may have a material affect on our financial position. We estimate that if the exchange rates for the Euro and the British Pound relative to the U.S. dollar fluctuate 10% from June 30, 2010, net income and cash flows in the third quarter of 2010 would fluctuate by approximately $0.5 million and $6.7 million, respectively.

ITEM 4. CONTROLS AND PROCEDURES

Exchange Act Rule 13a-15(d) defines disclosure controls and procedures to mean controls and procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms. The definition further states that disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

An evaluation was performed under the supervision and with the participation of our management, including our principal executive and principal financial officers, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this report, to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management to allow timely decisions regarding required disclosures. There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth above under Note 9 Commitments and Contingencies Litigation contained in the Notes to Consolidated Financial Statements is incorporated herein by reference.

ITEM 1A. RISK FACTORS

The reader should carefully consider, in connection with the other information in this report, the factors discussed in Part I, Item 1A: Risk Factors on pages 11 through 19 of the Company s 2009 Annual Report on Form 10-K incorporated herein by reference. These factors may cause our actual results to differ materially from those stated in forward-looking statements contained in this document and elsewhere.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the quarter ended June 30, 2010, we did not sell any equity securities that were not registered under the Securities Act of 1933.

On February 11, 2010, our Board of Directors authorized management to continue repurchasing up to an additional 1,000,000 shares of our issued and outstanding common stock. Repurchases may be made to manage dilution created by shares issued under our stock incentive plans or whenever we deem a repurchase is a good use of our cash and the price to be paid is at or below a threshold approved by our Board. As of June 30, 2010, we have purchased 322,688 shares of our common stock, leaving 677,312 shares available for purchase under this authorization. Repurchase information for the second quarter of 2010 is set forth by month in the following table:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2010 April 30, 2010	22,018	$ 22.15	N/A	N/A
May 1, 2010 May 31, 2010	130,612	20.88	N/A	N/A
June 1, 2010 June 30, 2010	144,374	19.16	N/A	N/A
Total Second Quarter 2010	297,004	$ 20.14	N/A	N/A

ITEM 6. EXHIBITS

31.1 Rule 13a-14(a) Certifications of Paul D. Arling, Chief Executive Officer (principal executive officer) of Universal Electronics Inc.

31.2 Rule 13a-14(a) Certifications of Bryan M. Hackworth, Chief Financial Officer (principal financial officer and principal accounting officer) of Universal Electronics Inc.

32 Section 1350 Certifications of Paul D. Arling, Chief Executive Officer (principal executive officer) of Universal Electronics Inc., and Bryan M. Hackworth, Chief Financial Officer (principal financial officer and principal accounting officer) of Universal Electronics Inc. pursuant to 18 U.S.C. Section 1350

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 6, 2010	Universal Electronics Inc.
	/s/ *Bryan M. Hackworth* Bryan M. Hackworth Chief Financial Officer (principal financial officer and principal accounting officer)

EXHIBIT INDEX

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