

UNIVERSAL ELECTRONICS INC  
Form 10-Q  
May 09, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

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

Commission File Number: 0-21044

UNIVERSAL ELECTRONICS INC.  
(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

33-0204817  
(I.R.S. Employer  
Identification No.)

201 E. Sandpointe Avenue, 8<sup>th</sup> Floor  
Santa Ana, California  
(Address of Principal Executive Offices)

92707  
(Zip Code)

Registrant's telephone number, including area code: (714) 918-9500

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, any Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 14,995,308 shares of Common Stock, par value \$0.01 per share, of the registrant were outstanding on May 3,

2013.

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UNIVERSAL ELECTRONICS INC.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. Consolidated Financial Statements (Unaudited)

## UNIVERSAL ELECTRONICS INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share-related data)

(Unaudited)

	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$28,724	\$44,593
Accounts receivable, net	88,713	91,048
Inventories, net	89,579	84,381
Prepaid expenses and other current assets	3,955	3,661
Income tax receivable	125	270
Deferred income taxes	5,196	5,210
Total current assets	216,292	229,163
Property, plant, and equipment, net	77,472	77,706
Goodwill	30,807	30,890
Intangible assets, net	28,975	29,835
Other assets	5,317	5,361
Deferred income taxes	7,202	6,369
Total assets	\$366,065	\$379,324
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$50,295	\$59,831
Line of credit	—	—
Accrued compensation	31,680	33,398
Accrued sales discounts, rebates and royalties	5,691	8,093
Accrued income taxes	2,779	3,668
Deferred income taxes	38	41
Other accrued expenses	9,564	10,644
Total current liabilities	100,047	115,675
Long-term liabilities:		
Deferred income taxes	10,549	10,687
Income tax payable	525	525
Other long-term liabilities	1,921	1,787
Total liabilities	113,042	128,674
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; 21,573,699 and 21,491,398 shares issued on March 31, 2013 and December 31, 2012, respectively	216	215
Paid-in capital	182,611	180,607
Accumulated other comprehensive income (loss)	(74	) 1,052
Retained earnings	173,515	170,569
	356,268	352,443
	(103,245	) (101,793

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Less cost of common stock in treasury, 6,589,901 and 6,516,382 shares on March 31, 2013 and December 31, 2012, respectively

Total stockholders' equity	253,023	250,650
Total liabilities and stockholders' equity	\$366,065	\$379,324

See Note 4 for further information concerning our purchases from a related party vendor.

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

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

	Three Months Ended March 31,		
	2013	2012	
Net sales	\$ 114,722	\$ 103,732	
Cost of sales	82,173	75,405	
Gross profit	32,549	28,327	
Research and development expenses	4,241	3,463	
Selling, general and administrative expenses	24,413	22,552	
Operating income	3,895	2,312	
Interest income (expense), net	9	(37	)
Other income (expense), net	(550	) (324	)
Income before provision for income taxes	3,354	1,951	
Provision for income taxes	408	319	
Net income	\$ 2,946	\$ 1,632	
Earnings per share:			
Basic	\$ 0.20	\$ 0.11	
Diluted	\$ 0.19	\$ 0.11	
Shares used in computing earnings per share:			
Basic	14,965	14,871	
Diluted	15,225	15,108	

See Note 4 for further information concerning our purchases from a related party vendor.

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

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UNIVERSAL ELECTRONICS INC.  
 CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Net income	\$2,946	\$1,632
Other comprehensive income (loss):		
Change in foreign currency translation adjustment	(1,126	) 928
Comprehensive income	\$1,820	\$2,560

See Note 4 for further information concerning our purchases from a related party vendor.

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Cash provided by (used for) operating activities:		
Net income	\$2,946	\$1,632
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	4,374	4,260
Provision for doubtful accounts	24	(17)
Provision for inventory write-downs	573	894
Deferred income taxes	(954)	) 124
Tax benefit from exercise of stock options and vested restricted stock	2	8
Excess tax benefit from stock-based compensation	(37)	) (30)
Shares issued for employee benefit plan	255	121
Stock-based compensation	1,261	1,197
Changes in operating assets and liabilities:		
Accounts receivable	1,669	8,934
Inventories	(6,066)	) 5,387
Prepaid expenses and other assets	(268)	) (681)
Accounts payable and accrued expenses	(14,345)	) (21,511)
Accrued income and other taxes	(731)	) (2,343)
Net cash provided by (used for) operating activities	(11,297)	) (2,025)
Cash used for investing activities:		
Acquisition of property, plant, and equipment	(3,058)	) (1,712)
Acquisition of intangible assets	(291)	) (216)
Net cash used for investing activities	(3,349)	) (1,928)
Cash provided by (used for) financing activities:		
Issuance of debt	13,500	5,000
Payment of debt	(13,500)	) (7,200)
Proceeds from stock options exercised	593	1,151
Treasury stock purchased	(1,558)	) (309)
Excess tax benefit from stock-based compensation	37	30
Net cash provided by (used for) financing activities	(928)	) (1,328)
Effect of exchange rate changes on cash	(295)	) 221
Net increase (decrease) in cash and cash equivalents	(15,869)	) (5,060)
Cash and cash equivalents at beginning of year	44,593	29,372
Cash and cash equivalents at end of year	\$28,724	\$24,312
Supplemental Cash Flow Information:		
Income taxes paid	\$1,682	\$1,094
Interest paid	\$22	\$95

See Note 4 for further information concerning our purchases from a related party vendor.

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





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UNIVERSAL ELECTRONICS INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2013  
(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 months ended March 31, 2013 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, 2012.

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, allowances 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, 2012 for a summary of our significant accounting policies.

Recent Accounting Pronouncements

In December 2011, the FASB issued Accounting Standards Update ("ASU") 2011-11, "Disclosures about Offsetting Assets and Liabilities". The amendments in ASU 2011-11 require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. In January 2013, the FASB issued ASU 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities", which limits the scope of ASU 2011-11 to derivatives, repurchase agreements and securities lending transactions. This guidance became effective on January 1, 2013 with retrospective application required. The adoption of this guidance did not have a material impact on our consolidated financial statements. In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income", which updates ASU 2011-05, "Comprehensive Income". This standard requires the presentation in a single location, either in a note or parenthetically on the face of the financial statements, of the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. We adopted this guidance effective January 1, 2013. The adoption of this guidance did not have a material impact on our consolidated financial statements.

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 (Unaudited)

## Note 2 — Cash and Cash Equivalents

Cash and cash equivalents were held in the following geographic regions:

(In thousands)	March 31, 2013	December 31, 2012
United States	\$1,436	\$2,741
Asia	19,973	27,317
Europe	5,266	9,361
Cayman Islands	35	1
South America	2,014	5,173
Total cash and cash equivalents	\$28,724	\$44,593

## Note 3 — Accounts Receivable, Net and Revenue Concentrations

Accounts receivable, net were as follows:

(In thousands)	March 31, 2013	December 31, 2012
Trade receivables, gross	\$86,944	90,056
Allowance for doubtful accounts	(331)	(322)
Allowance for sales returns	(589)	(996)
Net trade receivables	86,024	88,738
Other	2,689	2,310
Accounts receivable, net	\$88,713	\$91,048

## Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts were as follows:

(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 March 31, 2013	\$322	\$24	\$(15)	\$331
Three months ended March 31, 2012	\$1,021	\$(17)	\$4	\$1,008

## Sales Returns

The allowance for sales returns at March 31, 2013 and December 31, 2012 included reserves for items returned prior to year-end that were not completely processed, and therefore had not yet been removed from the allowance for sales returns balance. If these returns had been fully processed, the allowance for sales returns balance would have been approximately \$0.4 million and \$0.6 million on March 31, 2013 and December 31, 2012, respectively. The value of these returned goods was included in our inventory balance at March 31, 2013 and December 31, 2012.

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 (Unaudited)

## Significant Customer

Net sales to the following significant customer that totaled more than 10% of our net sales were as follows:

	Three Months Ended March 31,		2012		
	2013	% of Net Sales	\$ (thousands)	% of Net Sales	
DIRECTV	\$20,847	18.2	% \$16,211	15.6	%

Trade receivables associated with the significant customer activity disclosed above were as follows:

	March 31, 2013		December 31, 2012		
	\$ (thousands)	% of Accounts Receivable, Net	\$ (thousands)	% of Accounts Receivable, Net	
DIRECTV	\$10,236	11.5	% \$9,277	10.2	%

The loss of any 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 adverse effect on our financial condition, results of operations and cash flows.

## Note 4 — Inventories, Net and Significant Suppliers

Inventories, net were as follows:

(In thousands)	March 31, 2013	December 31, 2012
Raw materials	\$19,655	\$17,438
Components	17,882	20,978
Work in process	2,957	1,050
Finished goods	50,934	46,939
Reserve for excess and obsolete inventory	(1,849	) (2,024
Inventories, net	\$89,579	\$84,381

## Reserve for Excess and Obsolete Inventory

Changes in the reserve for excess and obsolete inventory were as follows:

(In thousands)	Balance at Beginning of Period	Additions Charged to Costs and Expenses (1)	Sell Through(2)	Write-offs/FX Effects	Balance at End of Period
Reserve for excess and obsolete inventory:					
Three months ended March 31, 2013	\$2,024	\$479	\$(57	) \$(597	) \$1,849
Three months ended March 31, 2012	\$3,447	\$718	\$(354	) \$(583	) \$3,228

The additions charged to costs and expenses do not include inventory directly written-off that was scrapped during (1) production totaling \$0.1 million and \$0.2 million for the three months ended March 31, 2013 and 2012. These amounts are production waste and are not included in management's reserve for excess and obsolete inventory.

(2)

This column represents the reversal of reserves associated with inventory items that were sold during the period. Sell through is the result of differences between our judgment concerning the saleability of inventory items during the excess and obsolete inventory review process and our subsequent experience.

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UNIVERSAL ELECTRONICS INC.  
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 (Unaudited)

## Significant Suppliers

We purchase integrated circuits, components and finished goods from multiple sources. We had purchases from the following significant suppliers that totaled more than 10% of our total inventory purchases as follows:

	Three Months Ended March 31,				
	2013		2012		
	\$ (thousands)	% of Total Inventory Purchases	\$ (thousands)	% of Total Inventory Purchases	
Samsung	—	—	\$5,216	10.3	%
Samjin	—	—	6,150	12.2	%

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 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.

## Related Party Vendor

We purchase certain printed circuit board assemblies from a related party vendor. The vendor is considered a related party for financial reporting purposes because our Senior Vice President of Manufacturing owns 40% of this vendor. Inventory purchases from this vendor were as follows:

	Three Months Ended March 31,				
	2013		2012		
	\$ (thousands)	% of Total Inventory Purchases	\$ (thousands)	% of Total Inventory Purchases	
Related party vendor	\$2,216	3.4	% \$1,355	2.7	%

The total accounts payable to this vendor were the following:

	March 31, 2013		December 31, 2012		
	\$ (thousands)	% of Accounts Payable	\$ (thousands)	% of Accounts Payable	
Related party vendor	\$1,073	2.1	% \$1,815	3.0	%

Our payable terms and pricing with this vendor are consistent with the terms offered by other vendors in the ordinary course of business. The accounting policies that we apply to our transactions with our related party vendor are consistent with those applied in transactions with independent third parties. Corporate management routinely monitors purchases from our related party vendor to ensure these purchases remain consistent with our business objectives.

## Note 5 — Goodwill and Intangible Assets, Net

## Goodwill

Goodwill and changes in the carrying amount of goodwill were as follows:

(In thousands)

Balance at December 31, 2012 \$30,890

Foreign currency	(83	)
Balance at March 31, 2013	\$30,807	

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UNIVERSAL ELECTRONICS INC.  
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 (Unaudited)

## Intangible Assets, Net

The components of intangible assets, net were as follows:

(In thousands)	March 31, 2013			December 31, 2012		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Carrying amount <sup>(1)</sup> :						
Distribution rights	\$ 368	\$(49 )	\$ 319	\$ 378	\$(50 )	\$ 328
Patents	8,319	(4,004 )	4,315	8,113	(3,847 )	4,266
Trademark and trade names	2,838	(1,197 )	1,641	2,841	(1,127 )	1,714
Developed and core technology	3,501	(963 )	2,538	3,507	(906 )	2,601
Capitalized software development costs	1,264	(1,003 )	261	1,276	(913 )	363
Customer relationships	26,379	(6,478 )	19,901	26,415	(5,852 )	20,563
Total carrying amount	\$42,669	\$(13,694 )	\$28,975	\$42,530	\$(12,695 )	\$29,835

(1) This table excludes the gross value of fully amortized intangible assets totaling \$9.1 million and \$9.1 million on March 31, 2013 and December 31, 2012, respectively.

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 was as follows:

(In thousands)	Three Months Ended March 31,	
	2013	2012
Cost of sales	\$92	\$81
Selling, general and administrative	972	958
Total amortization expense	\$1,064	\$1,039

Estimated future amortization expense related to our intangible assets at March 31, 2013, is as follows:

(In thousands)	
2013 (remaining 9 months)	\$3,081
2014	4,033
2015	3,859
2016	3,813
2017	3,799
Thereafter	10,390
Total	\$28,975

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. We recorded immaterial impairment charges related to our intangible assets for the three months ended March 31, 2013 and 2012.

We disposed of one patent and one trademark with an immaterial aggregate carrying amount during the three months ended March 31, 2013. We disposed of eight patents with an immaterial aggregate carrying amount during three



months ended March 31, 2012. These assets no longer held any probable future economic benefits and thus were written-off.

Note 6 — Line of Credit

On October 2, 2012, we entered into an Amended and Restated Credit Agreement ("Amended Credit Agreement") with U.S. Bank National Association ("U.S. Bank") which provides for a \$55.0 million line of credit ("Credit Line") that may be used for working

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UNIVERSAL ELECTRONICS INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2013  
(Unaudited)

capital and other general corporate purposes including acquisitions, share repurchases and capital expenditures. The Amended Credit Agreement expires on November 1, 2014. Amounts available for borrowing under the Credit Line are reduced by the balance of any outstanding letters of credit, of which there were \$13 thousand at March 31, 2013. All obligations under the Credit Line are secured by substantially all of our U.S. personal property and tangible and intangible assets as well as 65% of our ownership interest in Enson Assets Limited, our wholly-owned subsidiary which controls our manufacturing factories in the People's Republic of China ("PRC").

Under the Amended Credit Agreement, we may elect to pay interest on the Credit Line based on LIBOR plus an applicable margin (varying from 1.25% to 1.75%) or base rate (based on the prime rate of U.S. Bank or as otherwise specified in the Amended Credit Agreement) plus an applicable margin (varying from -0.25% to +0.25%). The applicable margins are calculated quarterly and vary based on our leverage ratio as set forth in the Amended Credit Agreement. There are no commitment fees or unused line fees under the Amended Credit Agreement.

The Amended Credit Agreement includes financial covenants requiring a minimum fixed charge coverage ratio, a maximum leverage ratio and minimum liquidity levels. In addition, the Amended Credit Agreement also contains other customary affirmative and negative covenants and events of default. As of March 31, 2013, we were in compliance with the covenants and conditions of the Amended Credit Agreement.

Our total interest expense on borrowings was \$33 thousand and \$0.1 million during the three months ended March 31, 2013 and 2012, respectively.

Note 7 — 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 \$0.4 million and \$0.3 million for the three months ended March 31, 2013 and 2012, respectively. Our effective tax rate was 12.2% and 16.4% during the three months ended March 31, 2013 and 2012, respectively. The decrease in our effective tax rate was due to the recognition of the 2012 federal R&D tax credit of \$0.4 million, which passed legislation during the three months ended March 31, 2013. During the three months ended March 31, 2012, we recorded the reversal of unrecognized tax benefits originally recorded in 2008 and 2009 which amounted to \$0.2 million.

On March 31, 2013, we had gross unrecognized tax benefits of approximately \$5.1 million, including interest and penalties, of which approximately \$4.7 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 \$0.1 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 \$0.1 million and \$0.1 million on March 31, 2013 and December 31, 2012, 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 March 31, 2013, the open statutes of limitations in our significant tax jurisdictions are as follows: federal are 2009 through 2012, state are 2008 through 2012, and non-U.S. are 2005 through 2012. On March 31, 2013, of our gross unrecognized tax benefits of \$5.1 million, which included \$0.1 million of interest, \$3.2 million are classified as current and \$1.9 million are classified as long term.

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UNIVERSAL ELECTRONICS INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 MARCH 31, 2013  
 (Unaudited)

## Note 8 — Accrued Compensation

The components of accrued compensation are listed below:

(In thousands)	March 31, 2013	December 31, 2012
Accrued social insurance <sup>(1)</sup>	\$19,862	\$19,842
Accrued salary/wages	5,603	4,862
Accrued vacation/holiday	2,441	2,048
Accrued bonus <sup>(2)</sup>	1,325	4,181
Accrued commission	163	478
Accrued medical insurance claims	719	643
Other accrued compensation	1,567	1,344
Total accrued compensation	\$31,680	\$33,398

Effective January 1, 2008, the Chinese Labor Contract Law was enacted in the PRC. This law mandated that PRC employers remit the applicable social insurance payments to their local government. Social insurance is comprised of various components such as pension, medical insurance, job injury insurance, unemployment insurance, and a housing assistance fund, and is administered in a manner similar to social security in the United States. This amount represents our estimate of the amounts due to the PRC government for social insurance on March 31, 2013 and December 31, 2012.

Accrued bonus includes an accrual for an extra month of salary ("13<sup>th</sup> month salary") to be paid to employees in certain geographies where it is the customary business practice. This 13<sup>th</sup> month salary is paid to these employees if they remain employed with us through December 31st. The total accrued for the 13<sup>th</sup> month salary was \$0.2 million and \$0.5 million at March 31, 2013 and December 31, 2012, respectively.

## Note 9 — Other Accrued Expenses

The components of other accrued expenses are listed below:

(In thousands)	March 31, 2013	December 31, 2012
Advertising and marketing	\$480	501
Duties	730	584
Freight	1,471	1,666
Product development	435	569
Professional fees	1,095	1,234
Sales taxes and VAT	555	1,979
Tooling <sup>(1)</sup>	840	221
Third-party commissions	292	337
Utilities	328	316
Product warranty claim costs	454	404
Other	2,884	2,833
Total other accrued expenses	\$9,564	10,644

<sup>(1)</sup> The tooling accrual balance relates to unearned revenue for tooling that will be sold to customers.



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## Note 10 — Commitments and Contingencies

## Product Warranties

Changes in the reserve for product warranty claim costs were as follows:

(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
Reserve for product warranty claim costs:				
Three months ended March 31, 2013	\$404	\$375	\$(325 )	\$454
Three months ended March 31, 2012	\$6	\$—	\$—	\$6

## Litigation

On March 2, 2012, we filed a lawsuit against Universal Remote Control, Inc. ("URC") in the United States District Court, Central District of California (Universal Electronics Inc. v. Universal Remote Control, Inc., SACV12-0039 AG (JPRx)) alleging that URC is infringing, directly and indirectly, four of our patents related to remote control technology. We have alleged that this complaint relates to multiple URC remote control products, including the URC model numbers UR5U-9000L, WR7 and other remote controls with different model names or numbers, but with substantially the same designs, features, and functionalities. We are seeking monetary relief for the infringement, including enhanced damages due to the willfulness of URC's actions, injunctive relief to enjoin URC from further infringing, including contributory infringement and/or inducing infringement, and attorney's fees. URC has denied infringing our patents. On January 29, 2013, the Court held its "Markman" hearing and on February 1, 2013, the Court issued its ruling that four of the 24 claims we have asserted against URC were invalid, effectively removing one of the four patents alleged by us to be infringed by URC from this litigation. We are presently determining whether or not to appeal this decision, but in our estimation this ruling does not materially affect our position in this litigation. In all other respects, this litigation is continuing as scheduled with discovery continuing.

There are no other material pending legal proceedings to which we or any of our subsidiaries is a party or of which our respective property is the subject. However, as is typical in our industry and to the nature and kind of business in which we are engaged, from time to time, various claims, charges and litigation are asserted or commenced by third parties against us or by us against third parties arising from or related to product liability, infringement of patent or other intellectual property rights, breach of warranty, contractual relations, or employee relations. The amounts claimed may be substantial but may not bear any reasonable relationship to the merits of the claims or the extent of any real risk of court awards assessed against us or in our favor. However, no assurances can be made as to the outcome of any of these matters, nor can we estimate the range of potential losses to us. In our opinion, final judgments, if any, which might be rendered against us in potential or pending litigation would not have a material adverse effect on our financial condition, results of operations, or cash flows. Moreover, we believe that our products do not infringe any third parties' patents or other intellectual property rights.

We maintain directors' and officers' liability insurance which insures our individual directors and officers against certain claims, as well as attorney's fees and related expenses incurred in connection with the defense of such claims.

## 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 pension plan was adequately funded on March 31, 2013 and December 31, 2012 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. At March 31, 2013, approximately 39 percent of our India subsidiary employees had qualified for eligibility. An individual must be employed by our India subsidiary for a minimum of 5 years before becoming eligible. Upon the termination, resignation or retirement of an eligible employee, we are liable to pay the employee an amount equal to 15 days salary for each full year of service completed. The total amount of liability outstanding at March 31, 2013 and December 31, 2012 for the India Plan is not material. During the three months ended March 31, 2013 and 2012, the net periodic benefit costs were also not material.

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## Note 11 — Treasury Stock

Repurchased shares of our common stock were as follows:

(In thousands, except share data)	Three Months Ended March 31,	
	2013	2012
Shares repurchased	81,019	17,261
Cost of shares repurchased	\$1,558	\$309

Repurchased shares are recorded as shares held in treasury at cost. We hold these shares for future use as management and the Board of Directors deem appropriate, which has included compensating our outside directors. During the three months ended March 31, 2013 and 2012, we issued 7,500 and 7,500 shares from treasury, respectively, to outside directors for services performed (see Note 13).

From time to time, our Board of Directors authorizes management to repurchase 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 March 31, 2013, we had 788,044 shares available for repurchase under the Board's authorizations. On April 26, 2013, our Board increased these repurchase authorizations by 217,508 shares bringing the total authorization as of the approval date to 1,000,000 shares.

## 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 a limited extent. Our chief operating decision maker, the Chief Executive Officer, reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues for purposes of making operating decisions and assessing financial performance. Accordingly, we only have a single operating and reportable segment.

## Foreign Operations

Our net sales to external customers by geographic area were as follows:

(In thousands)	Three Months Ended March 31,	
	2013	2012
Net sales:		
United States	\$44,768	\$34,220
Asia (excluding PRC)	22,160	28,662
People's Republic of China	16,821	15,422
Europe	15,529	13,152
Latin America	7,823	7,032
Other	7,621	5,244
Total net sales	\$114,722	\$103,732

Specific identification of the customer billing location was the basis used for attributing revenues from external customers to geographic areas.

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Long-lived tangible assets were as follows:

(In thousands)	March 31, 2013	December 31, 2012
Long-lived tangible assets:		
United States	\$5,406	\$5,541
People's Republic of China	73,986	73,804
All other countries	3,397	3,722
Total	\$82,789	\$83,067

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 and the related income tax benefit were as follows:

(In thousands)	Three Months Ended March 31,	
	2013	2012
Research and development	\$57	\$70
Selling, general and administrative:		
Employees	1,109	922
Outside directors	95	205
Total stock-based compensation expense	\$1,261	\$1,197
Income tax benefit	\$389	\$407

Stock Options

Stock option activity was as follows:

	Number of Options (in 000's)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Terms (in years)	Aggregate Intrinsic Value (in 000's)
Outstanding at December 31, 2012	1,412	\$ 20.56		
Granted	192	19.57		
Exercised	(45)	13.31		\$294
Forfeited/canceled/expired	(1)	28.08		
Outstanding at March 31, 2013 <sup>(1)</sup>	1,558	\$ 20.64	5.41	\$6,033
Vested and expected to vest at March 31, 2013 <sup>(1)</sup>	1,554	\$ 20.64	5.40	\$6,017
Exercisable on March 31, 2013 <sup>(1)</sup>	1,181	\$ 20.51	4.23	\$4,923

The aggregate intrinsic value represents the total pre-tax value (the difference between our closing stock price on the last trading day of the first quarter of 2013 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had they all exercised their options on March 31, 2013. This amount will change based on the fair market value of our stock.





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

	Three Months Ended March 31,		
	2013	2012	
Weighted average fair value of grants <sup>(1)</sup>	\$9.22	\$9.65	
Risk-free interest rate	0.96	% 0.86	%
Expected volatility	53.44	% 55.25	%
Expected life in years	5.20	5.14	

<sup>(1)</sup> The weighted average fair value of grants was calculated utilizing the stock options granted during each respective period.

As of March 31, 2013, we expect to recognize \$3.3 million of total unrecognized pre-tax stock-based compensation expense related to non-vested stock options over a remaining weighted-average life of 2.2 years.

#### Restricted Stock

Non-vested restricted stock award activity was as follows:

	Shares Granted (in 000's)	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2012	270	\$18.72
Granted	80	19.25
Vested	(34	) 20.44
Forfeited	—	—
Non-vested at March 31, 2013	316	18.66

As of March 31, 2013, we expect to recognize \$4.9 million of total unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards over a weighted-average life of 2.0 years.

#### Note 14 — Other Income (Expense), Net

Other income (expense), net consisted of the following:

(In thousands)	Three Months Ended March 31,		
	2013	2012	
Net gain (loss) on foreign currency exchange contracts <sup>(1)</sup>	\$(198	) \$40	
Net gain (loss) on foreign currency exchange transactions	(353	) (449	)
Other income	1	85	
Other income (expense), net	\$(550	) \$(324	)

<sup>(1)</sup> This represents the gains and (losses) incurred on foreign currency hedging derivatives (see Note 16 for further details).

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## Note 15 — Earnings Per Share

Earnings per share was calculated as follows:

(In thousands, except per-share amounts)	Three Months Ended March 31,	
	2013	2012
<b>BASIC</b>		
Net income	\$2,946	\$1,632
Weighted-average common shares outstanding	14,965	14,871
Basic earnings per share	\$0.20	\$0.11
<b>DILUTED</b>		
Net income	\$2,946	\$1,632
Weighted-average common shares outstanding for basic	14,965	14,871
Dilutive effect of stock options and restricted stock	260	237
Weighted-average common shares outstanding on a diluted basis	15,225	15,108
Diluted earnings per share	\$0.19	\$0.11

The number of stock options and shares of restricted stock excluded from the computation of diluted earnings per common share were as follows:

(In thousands)	Three Months Ended March 31,	
	2013	2012
Stock options	818	707
Restricted stock shares	61	157

## 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 Argentinian Peso, Brazilian Real, British Pound, Chinese Yuan Renminbi, Euro, Hong Kong dollar, Indian Rupee, and Singapore 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 the derivatives are recorded in other income (expense), net. Derivatives are recorded on the balance sheet at fair value. The estimated fair values of our derivative financial instruments represent the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices. We have determined that the fair value of our derivatives are derived from level 2 inputs in the fair value hierarchy. The following table sets forth the fair value of derivatives:

(In thousands)	March 31, 2013				December 31, 2012			
	Fair Value Measurement Using			Total	Fair Value Measurement Using			Total
Description	(Level 1)	(Level 2)	(Level 3)	Balance	(Level 1)	(Level 2)	(Level 3)	Balance
Foreign currency exchange futures contracts	\$—	\$(102 )	\$—	\$(102 )	\$—	\$(13 )	\$—	\$(13 )

We held foreign currency exchange contracts which resulted in a net pre-tax loss of approximately \$0.2 million and a net pre-tax gain of approximately \$40 thousand for the three months ended March 31, 2013 and 2012, respectively.

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Details of foreign currency futures contracts held were as follows:

Date Held	Type	Position Held	Notional Value (in millions)	Forward Rate	Gain/(Loss) Recorded at Balance Sheet Date (in thousands) <sup>(1)</sup>	Settlement Date
March 31, 2013	USD/Euro	Euro	\$6.0	1.303	\$(98 )	April 19, 2013
March 31, 2013	USD/Chinese Yuan Renminbi	Chinese Yuan Renminbi	\$12.0	6.2715	\$(4 )	April 19, 2013
December 31, 2012	USD/Euro	Euro	\$5.0	1.3228	\$(13 )	January 18, 2013

<sup>(1)</sup> Gains on futures contracts are recorded in prepaid expenses and other current assets. Losses on futures contracts are recorded in other accrued expenses.

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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 develop and manufacture a broad line of pre-programmed universal remote control products, audio-video ("AV") accessories, and software that are marketed to enhance home entertainment systems. Our customers operate in the consumer electronics market and include subscription broadcasters, OEMs, international retailers, private labels, and companies in the computing industry. We also sell integrated circuits, on which our software and infrared ("IR") code database, or library, is embedded, to OEMs that manufacture wireless control devices, cable converters or satellite receivers for resale in their products.

Since our beginning in 1986, we have compiled an extensive IR code library that covers over 733,300 individual device functions and approximately 5,800 individual consumer electronic equipment brand names. Our library is regularly updated with IR codes used in newly introduced AV devices. These IR codes are captured directly from the remote control devices or the manufacturer's written specifications to ensure the accuracy and integrity of the database. We believe that our universal remote control library contains device codes that are capable of controlling virtually all IR controlled set-top boxes, televisions, audio components, DVD players, and CD players, as well as most other infrared remote controlled home entertainment devices and home automation control modules worldwide.

We operate as one business segment. We have twenty-four subsidiaries located in Argentina, Cayman Islands, France, Germany, Hong Kong (6), India, Italy, the Netherlands, Singapore, Spain, Brazil, British Virgin Islands (3), People's Republic of China (4) and the United Kingdom.

To recap our results for the three months ended March 31, 2013:

Our net sales increased 10.6% to \$114.7 million for the three months ended March 31, 2013 from \$103.7 million for the three months ended March 31, 2012.

Our gross margin percentage improved from 27.3% for the three months ended March 31, 2012 to 28.4% for the three months ended March 31, 2013. This improvement was primarily due to an increase in units produced internally versus units produced by third-party manufacturers.

Operating expenses, as a percent of sales, decreased slightly from 25.1% for the three months ended March 31, 2012 to 25.0% for the three months ended March 31, 2013.

Our operating income increased 68.5% to \$3.9 million for the three months ended March 31, 2013 from \$2.3 million for the three months ended March 31, 2012, and our operating margin percentage increased to 3.4% for the three months ended March 31, 2013, compared to 2.2% for the three months ended March 31, 2012.

Our effective tax rate decreased 420 basis points to 12.2% for the three months ended March 31, 2013, compared to 16.4% for the three months ended March 31, 2012.

Our strategic business objectives for 2013 include the following:

- continue to develop industry-leading technologies and products with attractive gross margins in order to improve profitability;
- continue to increase our market share in new product categories, such as smart devices and game consoles;
- further penetrate the growing Asian and Latin American subscription broadcasting markets;
- acquire new customers in historically strong regions;
- increase our share with existing customers; and
- continue to seek acquisitions or strategic partners that complement and strengthen our existing business.

We intend for 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

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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 months ended March 31, 2013 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, 2012.

## Recent Accounting Pronouncements

See Note 1 contained in the "Notes to Consolidated Financial Statements" for a discussion of recent accounting pronouncements.

## Results of Operations

The following table sets forth our results of operations expressed as a percentage of net sales for the periods indicated.

(In thousands)	Three Months Ended March 31,					
	2013		2012			
Net sales	\$ 114,722	100.0	%	\$ 103,732	100.0	%
Cost of sales	82,173	71.6		75,405	72.7	
Gross profit	32,549	28.4		28,327	27.3	
Research and development expenses	4,241	3.7		3,463	3.3	
Selling, general and administrative expenses	24,413	21.3		22,552	21.8	
Operating income	3,895	3.4		2,312	2.2	
Interest income (expense), net	9	—		(37)	) —	
Other income (expense), net	(550)	) (0.5)	)	(324)	) (0.3)	)
Income before income taxes	3,354	2.9		1,951	1.9	
Provision for income taxes	408	0.3		319	0.3	
Net income	\$ 2,946	2.6	%	\$ 1,632	1.6	%

## Three Months Ended March 31, 2013 versus Three Months Ended March 31, 2012

Net sales. Net sales for the three months ended March 31, 2013 were \$114.7 million, an increase of 11% compared to \$103.7 million for the three months ended March 31, 2012. Net sales by our business and consumer lines were as follows:

	Three Months Ended March 31,				
	2013		2012		
	\$ (millions)	% of total	\$ (millions)	% of total	
Net sales:					
Business	\$ 104.6	91.2	% \$ 92.4	89.1	%
Consumer	10.1	8.8	% 11.3	10.9	%
Total net sales	\$ 114.7	100.0	% \$ 103.7	100.0	%

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were 91% of net sales for the three months ended March 31, 2013 compared to 89% for the three months ended March 31, 2012. Net sales in our Business lines for the three months ended March 31, 2013 increased by 13% to \$104.6 million driven largely by strong demand in North American subscription broadcasting. The growth in North American subscription



broadcasting was partially offset by a decrease in net sales to consumer electronics companies. Sales to consumer electronics companies have been adversely effected by the prolonged sluggish global economy.

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Net sales in our Consumer lines (One For All® retail and private label) were 9% of net sales for the three months ended March 31, 2013 compared to 11% for the three months ended March 31, 2012. Net sales in our Consumer lines for the three months ended March 31, 2013 decreased by 11% to \$10.1 million primarily due to a 14% decrease in international retail sales that was driven largely by soft consumer demand and cautious retailers in the European market.

Gross profit. Gross profit for the three months ended March 31, 2013 was \$32.5 million compared to \$28.3 million for the three months ended March 31, 2012. Gross profit as a percent of sales increased to 28.4% for the three months ended March 31, 2013 from 27.3% for the three months ended March 31, 2012. This improvement was primarily due to an increase in units produced internally versus units produced by third-party manufacturers.

Research and development ("R&D") expenses. R&D expenses increased 22% to \$4.2 million for the three months ended March 31, 2013 from \$3.5 million for the three months ended March 31, 2012. This increase was in line with our strategic initiatives and was primarily driven by additional R&D efforts dedicated to developing new product offerings for new and existing product categories.

Selling, general and administrative ("SG&A") expenses. SG&A expenses increased 8% to \$24.4 million for the three months ended March 31, 2013 from \$22.6 million for the three months ended March 31, 2012. This increase was driven primarily by increased payroll costs associated with hiring key personnel in global engineering and in our Asian operations, increased incentive compensation costs, and increased freight and delivery costs associated with higher sales volumes in the current period.

Interest income (expense), net. Net interest income was \$9,000 for the three months ended March 31, 2013 compared to net interest expense of \$37,000 for the three months ended March 31, 2012. This change was driven by lower interest expense in the current period due to decreased credit needs.

Other income (expense), net. Net other expense was \$0.6 million for the three months ended March 31, 2013 compared to net other expense of \$0.3 million for the three months ended March 31, 2012. This increase was driven primarily by increased foreign currency losses associated with fluctuations in foreign currency rates related to the Chinese Yuan Renminbi and Argentinian Peso, partially offset by foreign currency gains associated with fluctuations in foreign currency rates associated with the Euro.

Income tax expense. Income tax expense was \$0.4 million for the three months ended March 31, 2013 compared to \$0.3 million for the three months ended March 31, 2012. Our effective tax rate was 12.2% for the three months ended March 31, 2013 compared to 16.4% for the three months ended March 31, 2012. The decrease in our effective tax rate was due to the recognition of the 2012 federal R&D tax credit of \$0.4 million, which passed legislation during the three months ended March 31, 2013. During the three months ended March 31, 2012, we recorded the reversal of unrecognized tax benefits originally recorded in 2008 and 2009 which amounted to \$0.2 million.

## Liquidity and Capital Resources

## Sources and Uses of Cash

(In thousands)	Three Months Ended March 31, 2013	Increase (Decrease)	Three Months Ended March 31, 2012
Cash used for operating activities	\$(11,297	) \$(9,272	) \$(2,025
Cash used for investing activities	(3,349	) (1,421	) (1,928
Cash used for financing activities	(928	) 400	(1,328
Effect of exchange rate changes on cash	(295	) (516	) 221

	March 31, 2013	Increase (Decrease)	December 31, 2012
Cash and cash equivalents	\$28,724	\$(15,869	) \$44,593
Working capital	116,245	2,757	113,488

Net cash used for operating activities increased \$9.3 million to cash outflows of \$11.3 million during the three months ended March 31, 2013 from cash outflows of \$2.0 million during the three months ended March 31, 2012, primarily

due to working capital needs associated with accounts receivable and inventories. Days sales outstanding increased from approximately 64 days for the three months ended March 31, 2012 to approximately 69 days for the three months ended March 31, 2013. Our days sales outstanding typically fluctuates between 62 and 69 days. With respect to inventories, we increased inventory levels during the three months ended March 31, 2013 to support a higher level of expected sales in the current year. Our inventory turns improved

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slightly from approximately 3.5 turns for the three months ended March 31, 2012 to approximately 3.7 turns for the three months ended March 31, 2013.

Net cash used for investing activities during the three months ended March 31, 2013 was \$3.3 million compared to \$1.9 million net cash used during the three months ended March 31, 2012. Cash outflows to purchase property, plant and equipment were \$3.1 million during the three months ended March 31, 2013 compared to \$1.7 million for the three months ended March 31, 2012. This increase is due primarily to equipment purchases at our China factories which has enabled us to produce more units internally versus utilizing third-party manufacturers.

Net cash used for financing activities was \$0.9 million during the three months ended March 31, 2013 compared to net cash used for financing activities of \$1.3 million during the three months ended March 31, 2012. The decrease in cash used for financing activities was driven by \$2.2 million of net debt repayments in the prior year period, partially offset by an increased level of stock repurchases and lower proceeds from stock option exercises in the current year period.

During the three months ended March 31, 2013, we repurchased 81,019 shares of our common stock at a cost of \$1.6 million compared to our repurchase of 17,261 shares at a cost of \$0.3 million during the three months ended March 31, 2012. We hold these shares as treasury stock and they are available for reissue. Presently, except for using a minimal number of these treasury shares to compensate our outside board members, we have no plans to distribute these shares, although we may change these plans if necessary to fulfill our on-going business objectives.

From time to time, our Board of Directors authorizes management to repurchase 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 March 31, 2013, we had 788,044 shares available for repurchase under the Board's authorizations.

**Contractual Obligations**

The following table summarizes our contractual obligations and the effect these obligations are expected to have on our liquidity and cash flow in future periods.

(In thousands)	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Contractual obligations:					
Operating lease obligations	\$13,064	\$2,481	\$3,856	\$2,704	\$4,023
Capital lease obligations	88	20	40	28	—
Purchase obligations <sup>(1)</sup>	77,167	10,867	40,800	25,500	—
Total contractual obligations	\$90,319	\$13,368	\$44,696	\$28,232	\$4,023

<sup>(1)</sup> Purchase obligations primarily include contractual payments to purchase tooling assets and inventory.

**Liquidity**

Historically, we have utilized cash provided from operations as our primary source of liquidity, as internally generated cash flows have been sufficient to support our business operations, capital expenditures and discretionary share repurchases. 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. We believe our current cash balances and anticipated cash flow to be generated from operations will be sufficient to cover cash outlays expected during 2013; however, because our cash is located in various jurisdictions throughout the world, we may at times need to borrow from our revolving line of credit until we are able to transfer cash among our various entities. Our liquidity is subject to various risks including the risks discussed under "Item 3. Quantitative and Qualitative Disclosures about Market Risk".

(In thousands)	March 31, 2013	December 31, 2012
Cash and cash equivalents	\$28,724	\$44,593
Debt	—	—

Available borrowing resources

54,987

55,000

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Our cash balances are held in numerous locations throughout the world. The majority of our cash is held outside of the United States and 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 March 31, 2013, we had \$1.4 million, \$20.0 million, \$5.3 million and \$2.0 million of cash and cash equivalents in the United States, Asia, Europe, and South America, respectively. On December 31, 2012, we had approximately \$2.7 million, \$27.3 million, \$9.4 million, and \$5.2 million of cash and cash equivalents in the United States, Asia, Europe and South America, respectively. We attempt to mitigate our exposure to liquidity, credit and other relevant risks by placing our cash and cash equivalents with financial institutions we believe are high quality.

On October 2, 2012, we entered into an Amended and Restated Credit Agreement ("Amended Credit Agreement") with U.S. Bank National Association ("U.S. Bank") which provides for a \$55.0 million line of credit ("Credit Line") that may be used for working capital and other general corporate purposes including acquisitions, share repurchases and capital expenditures. The Amended Credit Agreement expires on November 1, 2014. Amounts available for borrowing under the Credit Line are reduced by the balance of any outstanding letters of credit, of which there were \$13,000 at March 31, 2013.

All obligations under the Credit Line are secured by substantially all of our U.S. personal property and tangible and intangible assets as well as 65% of our ownership interest in Enson Assets Limited, our wholly-owned subsidiary which controls our manufacturing factories in the PRC.

Under the Amended Credit Agreement, we may elect to pay interest on the Credit Line based on LIBOR plus an applicable margin (varying from 1.25% to 1.75%) or base rate (based on the prime rate of U.S. Bank or as otherwise specified in the Amended Credit Agreement) plus an applicable margin (varying from -0.25% to +0.25%). The applicable margins are calculated quarterly and vary based on our leverage ratio as set forth in the Amended Credit Agreement. There are no commitment fees or unused line fees under the Amended Credit Agreement.

The Amended Credit Agreement includes financial covenants requiring a minimum fixed charge coverage ratio, a maximum leverage ratio and minimum liquidity levels. In addition, the Amended Credit Agreement also contains other customary affirmative and negative covenants and events of default. As of March 31, 2013, we were in compliance with the covenants and conditions of the Amended Credit Agreement.

### Off Balance Sheet Arrangements

We do not participate in any material 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 2012 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 statement. 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 failure of our markets to continue growing and expanding in the manner we anticipated; the failure of our customers to grow and expand as we anticipated; the effects of natural or other events beyond our control, including the effects political unrest, war or terrorist activities may have on us or the economy; the economic environment's effect on us 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, and digital media and interactive technology; our inability to add profitable complementary products which are accepted by the marketplace; our

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inability to attract and retain a quality workforce at adequate levels in all regions of the world, and particularly Asia; our inability to continue to maintain our operating costs at acceptable levels through our cost containment efforts; our inability to continue selling our products or licensing our technologies at higher or profitable margins; our inability to obtain orders or maintain our order volume with new and existing customers; our inability to develop new and innovative technologies and products that are accepted by our customers; 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; and other factors listed from time to time in our press releases and filings with the SEC.

**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.

**Interest Rate Risk**

We are exposed to interest rate risk related to our debt. Although at March 31, 2013 we had no outstanding borrowings under our Credit Line, from time to time we need to borrow amounts for working capital and other liquidity needs. Under the Amended Credit Agreement that became effective on October 2, 2012, we may elect to pay interest on outstanding borrowings on our Credit Line based on LIBOR or a base rate (based on the prime rate of U.S. Bank) plus an applicable margin as defined in the Amended Credit Agreement. A 100 basis point increase in interest rates would have had an insignificant effect on reported net income for the three months ended March 31, 2013.

We cannot make any assurances that we will not need to borrow additional amounts in the future or that funds will be extended to us under comparable terms or at all. If funding 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.

**Foreign Currency Exchange Rate Risk**

At March 31, 2013, we had wholly owned subsidiaries in Argentina, Brazil, Cayman Islands, France, Germany, Hong Kong, India, Italy, the Netherlands, the PRC, 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 during 2013 were the Euro, British Pound, Chinese Yuan Renminbi, Indian Rupee, Singapore dollar, Argentinian Peso and Brazilian Real. For most currencies, we are a net receiver of the foreign currency and therefore benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the foreign currency. 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 gains and losses 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 analysis covers all of our foreign currency contracts offset by the underlying exposures. Based on our overall foreign currency rate exposure at March 31, 2013 we believe that



movements in foreign currency rates may have a material effect on our financial position. We estimate that if the exchange rates for the Euro, British Pound, Chinese Yuan Renminbi, Indian Rupee, Singapore dollar, Argentinian Peso, and the Brazilian Real relative to the U.S. dollar fluctuate 10% from March 31, 2013, net income and total cash flows in the second quarter of 2013 would fluctuate by approximately \$2.5 million and \$3.0 million, respectively.

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## 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.

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

We are subject to lawsuits arising out of the conduct of our business. The discussion of our litigation matters contained in "Notes to the Consolidated Financial Statements - Note 10" 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" of the Company's 2012 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 three months ended March 31, 2013, we repurchased 81,019 shares of our issued and outstanding common stock for \$1.6 million under the ongoing and systematic programs approved by our Board of Directors. We make stock repurchases to manage the dilution created by shares issued under our stock incentive plans or when 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 from time to time. On March 31, 2013, we had 788,044 shares available for repurchase under the Board's authorizations. On April 26, 2013, our Board increased these repurchase authorizations by 217,508 shares bringing the total authorization as of the approval date to 1,000,000 shares.

The following table sets forth, for the three months ended March 31, 2013, our total stock repurchases, average price paid per share and the maximum number of shares that may yet be purchased under our plans or programs:

Period	Total Number of Shares Purchased	Weighted 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
January 1, 2013 - January 31, 2013	29,530	\$ 18.85	29,530	839,533
February 1, 2013 - February 28, 2013	32,236	19.09	32,236	807,297
March 1, 2013 - March 31, 2013	19,253	20.05	19,253	788,044
Total	81,019	\$ 19.23	81,019	788,044



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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
- \*101.INS XBRL Instance Document
- \*101.SCH XBRL Taxonomy Extension Schema Document
- \*101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- \*101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- \*101.LAB XBRL Taxonomy Extension Label Linkbase Document
- \*101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- \* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURE

Pursuant to the requirement of Section 13 or 15(d) 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.

Dated: May 9, 2013

UNIVERSAL ELECTRONICS INC.

By: /s/ Bryan M. Hackworth  
Bryan M. Hackworth  
Chief Financial Officer (principal financial officer  
and principal accounting officer)

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EXHIBIT INDEX

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*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
*	XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

