UNIVERSAL ELECTRONICS INC
Form 10-Q
November 08, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

¨ **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.)**
201 E. Sandpointe Avenue, 8th Floor Santa Ana, California	**92707**
(Address of Principal Executive Offices)	**(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 x No ¨

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 15,043,221 shares of Common Stock, par value $0.01 per share, of the registrant were outstanding on November 1, 2012.

Table of Contents

UNIVERSAL ELECTRONICS INC.

INDEX

	Page
PART I. FINANCIAL INFORMATION	3
Item 1. Consolidated Financial Statements (Unaudited)	3
Consolidated Balance Sheets	3
Consolidated Income Statements	4
Consolidated Comprehensive Income Statements	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3. Quantitative and Qualitative Disclosures About Market Risk	31
Item 4. Controls and Procedures	31
PART II. OTHER INFORMATION	32
Item 1. Legal Proceedings	32
Item 1A. Risk Factors	32
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	32
Item 6. Exhibits	33
Signature	34
Exhibit Index	35

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Consolidated Financial Statements (Unaudited)

UNIVERSAL ELECTRONICS INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share-related data)

(Unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 41,216	$ 29,372
Accounts receivable, net	92,392	82,184
Inventories, net	72,115	90,904
Prepaid expenses and other current assets	3,286	3,045
Deferred income taxes	6,561	6,558
Total current assets	215,570	212,063
Property, plant, and equipment, net	76,890	80,449
Goodwill	30,833	30,820
Intangible assets, net	30,534	32,814
Other assets	5,373	5,350
Deferred income taxes	8,073	7,992
Total assets	$ 367,273	$ 369,488
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 48,688	$ 55,430
Line of credit	2,000	2,000
Notes payable	4,800	14,400
Accrued sales discounts, rebates and royalties	6,443	6,544
Accrued income taxes	4,267	5,707
Accrued compensation	31,343	29,204
Deferred income taxes	52	50
Other accrued expenses	8,214	13,967
Total current liabilities	105,807	127,302
Long-term liabilities:		
Deferred income taxes	11,336	11,056
Income tax payable	1,136	1,136
Other long-term liabilities	1,652	5
Total liabilities	119,931	139,499
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; 21,368,580 and 21,142,915 shares issued on September 30, 2012 and December 31, 2011, respectively	214	211
Paid-in capital	178,602	173,701
Accumulated other comprehensive (loss) income	(57)	938
Retained earnings	167,651	154,016
	346,410	328,866
Less cost of common stock in treasury, 6,360,302 and 6,353,035 shares on September 30, 2012 and December 31, 2011, respectively	(99,068)	(98,877)
Total stockholders equity	247,342	229,989
Total liabilities and stockholders equity	$ 367,273	$ 369,488

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

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

Table of Contents

UNIVERSAL ELECTRONICS INC.

CONSOLIDATED INCOME STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine months Ended September 30, 2012	Nine months Ended September 30, 2011
Net sales	$ 124,871	$ 123,527	$ 345,307	$ 350,985
Cost of sales	88,433	89,349	247,572	254,284
Gross profit	36,438	34,178	97,735	96,701
Research and development expenses	3,521	2,861	10,408	9,275
Selling, general and administrative expenses	23,383	21,852	69,015	67,116
Operating income	9,534	9,465	18,312	20,310
Interest income (expense), net	(24)	(56)	(112)	(210)
Other income (expense), net	(65)	(353)	(515)	(771)
Income before provision for income taxes	9,445	9,056	17,685	19,329
Provision for income taxes	(2,595)	(1,972)	(4,050)	(4,297)
Net income	$ 6,850	$ 7,084	$ 13,635	$ 15,032
Earnings per share:				
Basic	$ 0.46	$ 0.48	$ 0.91	$ 1.00
Diluted	$ 0.45	$ 0.47	$ 0.90	$ 0.98
Shares used in computing earnings per share:				
Basic	14,984	14,887	14,931	14,963
Diluted	15,099	15,147	15,087	15,312

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

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

Table of Contents

UNIVERSAL ELECTRONICS INC.

CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Net income	$ 6,850	$ 7,084	$ 13,635	$ 15,032
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	498	(2,076)	(995)	2,117
Comprehensive income	$ 7,348	$ 5,008	$ 12,640	$ 17,149

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

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

Table of Contents

UNIVERSAL ELECTRONICS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine months Ended September 30, 2012	Nine months Ended September 30, 2011
Cash provided by operating activities:		
Net income	$ 13,635	$ 15,032
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,948	12,907
Provision for doubtful accounts	72	241
Provision for inventory write-downs	2,148	3,610
Deferred income taxes	146	26
Tax benefit from exercise of stock options and vested restricted stock	(160)	399
Excess tax benefit from stock-based compensation	(49)	(422)
Shares issued for employee benefit plan	620	592
Stock-based compensation	3,447	3,280
Changes in operating assets and liabilities:		
Accounts receivable	(10,876)	(2,772)
Inventories	15,758	(22,172)
Prepaid expenses and other assets	(282)	674
Accounts payable and accrued expenses	(8,335)	2,456
Accrued income taxes	(1,428)	(2,049)
Net cash provided by operating activities	27,644	11,802
Cash used for investing activities:		
Acquisition of property, plant, and equipment	(6,525)	(10,140)
Acquisition of intangible assets	(802)	(814)
Net cash used for investing activities	(7,327)	(10,954)
Cash used for financing activities:		
Issuance of debt	12,000	
Payment of debt	(21,600)	(16,600)
Proceeds from stock options exercised	1,425	1,381
Treasury stock purchased	(619)	(9,512)
Excess tax benefit from stock-based compensation	49	422
Net cash used for financing activities	(8,745)	(24,309)
Effect of exchange rate changes on cash	272	1,212
Net increase (decrease) in cash and cash equivalents	11,844	(22,249)
Cash and cash equivalents at beginning of period	29,372	54,249
Cash and cash equivalents at end of period	$ 41,216	$ 32,000

Supplemental Cash Flow Information *We had income tax payments of $6.5 million and $6.9 million during the nine months ended September 30, 2012* and *2011, respectively. We had interest payments of $0.2 million and $0.3 million during the nine months ended September 30, 2012* and *2011, respectively.*

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

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

6

Table of Contents

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 nine months ended September 30, 2012 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, 2011.

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, 2011 for a summary of our significant accounting policies.

Recent Accounting Pronouncements

During May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). This pronouncement was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. This pronouncement is effective for reporting periods beginning on or after December 15, 2011. We adopted this ASU beginning January 1, 2012.

During June 2011, the FASB issued ASU No. 2011-05 which requires an entity to present the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We adopted this ASU beginning January 1, 2012.

During September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment. The amendments in ASU 2011-08 are intended to reduce the cost and complexity associated with goodwill impairment tests required under the Accounting Standard Codification Topic 350 Intangibles Goodwill and Other. The update permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The amendments in this update are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. This guidance became effective January 1, 2012 and will be considered during the 2012 goodwill impairment testing. We do not expect it to have an impact on our consolidated financial position or results of operations.

During December 2011, the FASB issued 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. This pronouncement is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013 with retrospective application required. The adoption of ASU 2011-11 will result in changes to our presentation and disclosure only and will not have an impact on our consolidated results of operations and financial condition.

During July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. The new accounting guidance is intended to simplify impairment testing for indefinite-lived intangible assets. Entities will now be allowed to perform a qualitative assessment on indefinite-lived intangible asset impairment to determine whether a quantitative assessment is necessary. This guidance is effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. We do not expect it to have an impact on our consolidated financial position or results of operations.

Note 2: Cash and Cash Equivalents

Our cash and cash equivalents that were accounted for at fair value on a recurring basis on September 30, 2012 and December 31, 2011 were the following:

(In thousands)	**September 30, 2012**				**December 31, 2011**			
	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**
Cash and cash equivalents	$ 41,216	$	$	$ 41,216	$ 29,372	$	$	$ 29,372

On September 30, 2012, we had approximately $7.7 million, $5.8 million, $21.9 million, $0.6 million and $5.2 million of cash and cash equivalents in the United States, Europe, Asia, Cayman Islands, and South America, respectively.

On December 31, 2011, we had approximately $4.1 million, $7.6 million, $16.5 million, $0.1 million, and $1.1 million of cash and cash equivalents in the United States, Europe, Asia, Cayman Islands and South America, respectively.

See Note 2 under the caption *Cash and Cash Equivalents* 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 September 30, 2012 and December 31, 2011:

(In thousands)	**September 30, 2012**	**December 31, 2011**
Trade receivables, gross	$ 89,593	$ 82,305
Allowance for doubtful accounts	(318)	(1,021)
Allowance for sales returns	(762)	(981)
Trade receivables, net	88,513	80,303
Other receivables	3,879	1,881
Accounts receivable, net	$ 92,392	$ 82,184

Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts during the three months ended September 30, 2012 and 2011 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 September 30, 2012	$ 1,051	$ 35	$ (768)	$ 318
Three months ended September 30, 2011	$ 1,105	$ 12	$ (114)	$ 1,003

Table of Contents

Changes in the allowance for doubtful accounts during the nine months ended September 30, 2012 and 2011 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				
Nine months ended September 30, 2012	$ 1,021	$ 72	$ (775)	$ 318
Nine months ended September 30, 2011	$ 878	$ 251	$ (126)	$ 1,003

Sales Returns

The allowance for sales returns balance at September 30, 2012 and December 31, 2011 contained reserves for items returned prior to year-end, but 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 $0.7 million on September 30, 2012 and December 31, 2011, respectively. The value of these returned goods was included in our inventory balance at September 30, 2012 and December 31, 2011.

Significant Customers

During the three and nine months ended September 30, 2012 and 2011, we had net sales to the following significant customers that totaled more than 10% of our net sales:

	Three Months Ended September 30,			
	2012		2011	
	$ (thousands)	% of Net Sales	$ (thousands)	% of Net Sales
DIRECTV	$ 23,691	19.0%	$ 16,045	13.0%

	Nine months Ended September 30,			
	2012		2011	
	$ (thousands)	% of Net Sales	$ (thousands)	% of Net Sales
DIRECTV	$ 59,117	17.1%	$ 36,571	10.4%
Sony			38,456	11.0%

Trade receivables with these customers were the following on September 30, 2012 and December 31, 2011:

	September 30, 2012		December 31, 2011	
	$ (thousands)	% of Accounts Receivable, Net	$ (thousands)	% of Accounts Receivable, Net
DIRECTV	$ 9,422	10.2%	$ 7,599	9.2%
Sony			7,064	8.6%

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.

Table of Contents

Note 4: Inventories, Net and Significant Suppliers

Inventories, net consisted of the following on September 30, 2012 and December 31, 2011:

(In thousands)	September 30, 2012	December 31, 2011
Raw materials	$ 16,156	$ 17,014
Components	15,702	21,819
Work in process	2,326	1,071
Finished goods	40,238	54,447
Reserve for excess and obsolete inventory	(2,307)	(3,447)
Inventories, net	$ 72,115	$ 90,904

Reserve for Excess and Obsolete Inventory

Changes in the reserve for excess and obsolete inventory during the three months ended September 30, 2012 and 2011 were composed of the following:

(In thousands) Description	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 September 30, 2012	$ 3,037	$ 505	$ (566)	$ (669)	$ 2,307
Three Months Ended September 30, 2011	$ 2,525	$ 1,243	$ (289)	$ (502)	$ 2,977

Changes in the reserve for excess and obsolete inventory during the nine months ended September 30, 2012 and 2011 were composed of the following:

(In thousands) Description	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:					
Nine months Ended September 30, 2012	$ 3,447	$ 1,891	$ (1,124)	$ (1,907)	$ 2,307
Nine months Ended September 30, 2011	$ 2,135	$ 2,992	$ (896)	$ (1,254)	$ 2,977

(1) The additions charged to costs and expenses does not include inventory directly written-off that was scrapped during production totaling $0.02 million and $0.2 million for the three months ended September 30, 2012 and 2011, respectively, and $0.3 million and $0.6 million for the nine months ended September 30, 2012 and 2011, respectively. These amounts are production waste and are not included in management s reserve for excess and obsolete inventory.

(2) 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, components and finished goods from multiple sources. The total integrated circuit purchases from Samsung were greater than 10% of our total inventory purchases for the three and nine months ended September 30, 2011.

Table of Contents

During the three months ended September 30, 2011, the amount purchased from this supplier was the following:

	Three Months Ended September 30, 2012		2011	
	$ (thousands)	% of Total Inventory Purchases	$ (thousands)	% of Total Inventory Purchases
Samsung			$ 8,069	10.3%

During the nine months ended September 30, 2011, the amount purchased from this supplier was the following:

	Nine months Ended September 30, 2012		2011	
	$ (thousands)	% of Total Inventory Purchases	$ (thousands)	% of Total Inventory Purchases
Samsung			$ 24,017	11.2%

The total accounts payable to this supplier on December 31, 2011 was the following:

	September 30, 2012		December 31, 2011	
	$ (thousands)	% of Accounts Payable	$ (thousands)	% of Accounts Payable
Samsung			$ 1,725	3.1%

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.

Related Party Vendor

We purchase certain printed circuit board assemblies (PCBAs) from a related party vendor. The vendor is considered a related party for financial reporting purposes because the Senior Vice President of Manufacturing of Enson Assets Limited (Enson) owns 40% of this vendor. Our purchases from this vendor for the three and nine months ended September 30, 2012 totaled approximately $2.5 million and $6.0 million, or 4.3% and 3.6% of total inventory purchases, respectively. Our purchases from this vendor for the three and nine months ended September 30, 2011 totaled approximately $2.4 million and $6.3 million, or 3.1% and 2.9% of total inventory purchases, respectively. Payable amounts outstanding to this vendor were approximately $1.9 million and $1.9 million on September 30, 2012 and December 31, 2011, respectively. Our payment 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 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

Under the accounting guidance, the unit of accounting for goodwill is at a level of reporting referred to as a reporting unit. A reporting unit is either (1) an operating segment or (2) one level below an operating segment referred to as a component. During the fourth quarter 2010, as a result of us flattening our management structure, we merged our international component with our domestic component. We no longer have segment management of the international component and the financial results of our international component are not separate. In addition, these components have similar economic characteristics. As a result of these changes, our domestic and international components have been merged into our single operating segment.

Table of Contents

The goodwill balance on September 30, 2012 and the changes in the carrying amount of goodwill during the nine months ended September 30, 2012 were the following:

(in thousands)	
Balance at December 31, 2011	$ 30,820
Goodwill adjustment [1]	13
Balance at September 30, 2012	$ 30,833

(1) The adjustment, which relates to international goodwill, was the result of fluctuations in the foreign currency exchange rates used to translate the balances into U.S. dollars.

Please 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 September 30, 2012 and December 31, 2011 were the following:

	September 30, 2012			December 31, 2011		
(In thousands)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Carrying amount[1]:						
Distribution rights (10 years)	$ 369	$ (49)	$ 320	$ 372	$ (50)	$ 322
Patents (10 years)	7,982	(3,733)	4,249	9,488	(5,306	