UNIVERSAL ELECTRONICS INC
Form 10-Q
May 09, 2008

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

(Mark One)

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

For the quarterly period ended March 31, 2008

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

For the transition period from __________ to __________ .

Commission File Number: 0-21044
UNIVERSAL ELECTRONICS INC.
(Exact Name of Registrant as Specified in Its Charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant 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):

o Large accelerated filer	þ Accelerated filer	o Non-accelerated filer (do not check if smaller reporting company)	o 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 o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 14,138,422 shares of Common Stock, par value $0.01 per share, of the registrant were outstanding on May 6, 2008.

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PART I. FINANCIAL INFORMATION
ITEM 1. Consolidated Financial Statements

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

	March 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 83,386	$ 86,610
Accounts receivable, net	53,878	60,146
Inventories, net	42,093	34,906
Prepaid expenses and other current assets	2,405	1,874
Deferred income taxes	2,887	2,871
Total current assets	184,649	186,407
Equipment, furniture and fixtures, net	9,256	7,558
Goodwill	11,051	10,863
Intangible assets, net	5,590	5,700
Other assets	404	369
Deferred income taxes	6,518	6,388
Total assets	$ 217,468	$ 217,285
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 29,769	$ 29,382
Accrued sales discounts, rebates and royalties	4,037	4,671
Accrued income taxes	2,722	1,720
Accrued compensation	3,274	3,737
Other accrued expenses	6,278	6,567
Total current liabilities	46,080	46,077
Long-term liabilities:		
Deferred income taxes	143	127
Income tax payable	1,506	1,506
Other long-term liabilities	1,128	1,333
Total liabilities	48,857	49,043
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; 18,563,814 and 18,547,019 shares issued at March 31, 2008 and December 31, 2007, respectively	186	185
Paid-in capital	115,870	114,441
Accumulated other comprehensive income	19,067	11,221
Retained earnings	90,981	88,508
	226,104	214,355
Less cost of common stock in treasury, 4,470,439 and 3,975,439 shares at March 31, 2008 and December 31, 2007, respectively	(57,493)	(46,113)
Total stockholders equity	168,611	168,242
Total liabilities and stockholders equity	$ 217,468	$ 217,285

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

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

	Three Months Ended March 31,	
	2008	**2007**
Net sales	$ 61,191	$ 66,019
Cost of sales	39,456	41,678
Gross profit	21,735	24,341
Research and development expenses	2,196	2,322
Selling, general and administrative expenses	16,856	15,833
Operating income	2,683	6,186
Interest income, net	897	588
Other income, net	182	94
Income before provision for income taxes	3,762	6,868
Provision for income taxes	(1,289)	(2,231)
Net income	$ 2,473	$ 4,637
Earnings per share:		
Basic	$ 0.17	$ 0.33
Diluted	$ 0.17	$ 0.31
Shares used in computing earnings per share:		
Basic	14,474	14,130
Diluted	14,957	14,908

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

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Cash provided by operating activities:		
Net income	$ 2,473	$ 4,637
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,369	1,114
Provision for doubtful accounts	47	16
Provision for inventory write-downs	325	469
(Benefit) provision for deferred income taxes	(58)	892
Tax benefit from exercise of stock options	42	847
Excess tax benefit from stock-based compensation	(20)	(350)
Shares issued for employee benefit plan	60	106
Stock-based compensation	1,179	676
Changes in operating assets and liabilities:		
Accounts receivable	8,698	1,196
Inventories	(6,187)	269
Prepaid expenses and other assets	(458)	(307)
Accounts payable and accrued expenses	(2,594)	(814)
Accrued income taxes	702	(655)
Net cash provided by operating activities	5,578	8,096
Cash used for investing activities:		
Acquisition of equipment, furniture and fixtures	(2,502)	(883)
Acquisition of intangible assets	(212)	(207)
Net cash used for investing activities	(2,714)	(1,090)
Cash (used for) provided by financing activities:		
Proceeds from stock options exercised	223	4,285
Treasury stock purchased	(11,455)	
Excess tax benefit from stock-based compensation	20	350
Net cash (used for) provided by financing activities	(11,212)	4,635
Effect of exchange rate changes on cash	5,124	497
Net (decrease) increase in cash and cash equivalents	(3,224)	12,138

Cash and cash equivalents at beginning of period	86,610	66,075
Cash and cash equivalents at end of period	$ 83,386	$ 78,213

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

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

Note 1: Basis of Presentation and Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Certain 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.

The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the consolidated financial statements and related notes and Management Discussion and Analysis of Financial Conditions and Results of Operations contained in our Annual Report on Form 10-K for our fiscal year ended December 31, 2007. The financial information presented in the accompanying statements reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of financial position, operations and cash flows for the periods presented. All such adjustments are of a normal recurring nature. 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.

Estimates 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 and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, allowance for sales returns and doubtful accounts, warranties, inventory valuation, 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 could be significant.

Revenue Recognition

We recognize revenue on the sale of products when delivery has occurred, there is persuasive evidence of an arrangement, the sales price is fixed or determinable and collectibility is reasonably assured. We record a provision for estimated sales returns on product sales in the same period as the related revenues are recorded. These estimates are based on historical sales returns, analysis of credit memo data and other known factors. The provision recorded for estimated sales returns and allowances is deducted from gross sales to arrive at net sales in the period the related revenue is recorded.

We accrue for discounts and rebates on product sales in the same period as the related revenues are recorded based on historical experience. Changes in such accruals may be required if future rebates and incentives differ from our estimates. Rebates and incentives are recognized as a reduction of sales if distributed in cash or customer account credits. Rebates and incentives are recognized as cost of sales if we provide products or services for payment.

Sales allowances reduce gross accounts receivable to arrive at accounts receivable, net in the same period the related receivable is recorded. We have no obligations after delivery of our products other than the associated warranties (see Note 15). We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make payments for products sold or services rendered. The allowance for doubtful accounts is based on a variety of factors, including historical experience, length of time receivables are past due, current economic trends and changes in customer payment behavior. Also, we record specific provisions for individual accounts when we become aware of a customer s inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer s operating results or financial position. If circumstances related to a customer change, our estimates of the recoverability of the receivables would be further adjusted, either upward or downward.

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We generate service revenue, which is paid monthly, as a result of providing consumer support programs to some of our customers through our call centers. These service revenues are recognized when services are performed, persuasive evidence of an arrangement exists, the sales price is fixed or determinable, and collectibility is reasonably assured.

We may from time to time initiate the sale or license of certain intellectual property, including patented technologies, trademarks, or a particular database of infrared codes. When a fixed upfront fee is received in exchange for the conveyance of a patent, trademark, or database delivered that represents the culmination of the earnings process we record revenue when delivery has occurred, persuasive evidence of an arrangement exists, the sales price is fixed or determinable and collectibility is reasonably assured. We record license revenue when our customers ship products incorporating our intellectual property, persuasive evidence of an arrangement exists, the sales price is fixed or determinable, and collectibility is reasonably assured.

When a sales arrangement contains multiple elements, such as software products, licenses and/or services, we allocate revenue to each element based on its relative fair value. The fair values for the multiple elements are determined based on vendor specific objective evidence (VSOE), or the price charged when the element is sold separately. The residual method is utilized when VSOE exists for all the undelivered elements, but not for the delivered element. This is performed by allocating revenue to the undelivered elements (that have VSOE) and the residual revenue to the delivered elements. When the fair value for an undelivered element cannot be determined, we defer revenue for the delivered elements until the undelivered element is delivered. We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services or subject to customer-specified return or refund privileges.

We account for revenue under software licensing arrangements involving significant production, modification or customization of software in accordance with SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts . We recognize revenue and profit as work progresses on long-term, fixed price contracts using the percentage-of-completion method. When applying the percentage-of-completion method, we rely on estimates of total expected contract revenue and labor hours which are provided by our project managers. We follow this method because reasonably dependable estimates of the revenue and labor applicable to various stages of a contract can be made. Recognized revenue and profit are subject to revisions as the contract progresses to completion. Revisions to revenue and profit estimates are charged to income in the period in which the facts that give rise to the revision become known, and losses are accrued when identified.

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Effective January 1, 2007, we applied the opinion reached by the FASB s Emerging Issues Task Force on EITF Issue 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation) (EITF 06-3). The consensus in EITF 06-3 does not require us to reevaluate our existing accounting policies for income statement presentation. We present all non-income government-assessed taxes (sales, use and value added taxes) collected from our customers and remitted to governmental agencies on a net basis (excluded from revenue) in our financial statements. The government-assessed taxes are recorded in other accrued expenses until they are remitted to the government agency.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles in the United States of America (GAAP), and expands disclosures about fair value measurements for assets and liabilities. SFAS 157 applies when other accounting pronouncements require or permit assets or liabilities to be measured at fair value. Accordingly, SFAS 157 does not require new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position for SFAS 157 (FSP FAS 157-1) to amend SFAS 157 to exclude SFAS 13, Accounting for Leases , and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under SFAS 141, Business Combinations , or SFAS 141R, Business Combinations , regardless of whether those assets and liabilities are related to leases. Additionally in February 2008 the FASB issued FASB Staff Position for SFAS 157 (FSP FAS 157-2), which delays the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in an entity s financial statements on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008. We adopted the provisions of SFAS 157 in the first quarter of 2008, except for those items within scope of FSP FAS 157-2, which we will adopt in the first quarter of 2009. We did not apply the provisions of SFAS 157 during the first quarter of 2008; however, we will apply the provisions as necessary (i.e. annual year-end impairment review of goodwill and intangible assets). As a result, the adoption of SFAS 157 had no impact on our consolidated results of operations and financial condition during the quarter ended March 31, 2008.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 expands the use of fair value accounting but does not affect existing standards that require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments for financial instruments that otherwise would not be recognized at inception and non-cash warranty obligations where a warrantor is permitted to pay a third party to provide the warranty goods or services. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred, such as debt issuance costs. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and was adopted by us in the first quarter of 2008. Although we adopted the provisions of SFAS 159, we did not apply the provisions to any assets or liabilities during the first quarter of 2008. As a result, the adoption of SFAS 159 had no impact on our consolidated results of operations and financial condition during the quarter ended March 31, 2008.

In June 2007, the FASB ratified EITF 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities (EITF 07-3). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007 and was adopted by us in the first quarter of 2008. The adoption of EITF 07-3 did not have a material effect on our consolidated results of operations and financial condition.

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In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2009. We do not believe that the adoption of Statement 141R will have a material effect on our financial statements; however, the effect is dependent upon whether we make any future acquisitions and the specifics of those acquisitions.

In December 2007, the FASB ratified EITF 07-1, Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property (EITF 07-1). EITF 07-1 defines collaborative arrangements and establishes disclosure requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-1 is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008 and should be applied retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date. EITF 07-1 is effective for us beginning January 1, 2009. Currently, we do not have any collaborative arrangements; therefore, we do not believe that the adoption of EITF 07-1 will have an impact on our consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements: an amendment of ARB No. 51 (SFAS 160). SFAS 160 changes the accounting for, and the financial statement presentation of, noncontrolling equity interests in a consolidated subsidiary. SFAS 160 replaces the existing minority-interest provisions of Accounting Research Bulletin 51 (ARB 51), Consolidated Financial Statements, by defining a new term-noncontrolling interests-to replace what were previously called minority interests. The new standard establishes noncontrolling interests as a component of the equity of a consolidated entity. The underlying principle of the new standard is that both the controlling interest and the noncontrolling interests are part of the equity of a single economic entity: the consolidated reporting entity. Classifying noncontrolling interests as a component of consolidated equity is a change from the current practice of treating minority interests as a mezzanine item between liabilities and equity or as a liability. The change affects both the accounting and financial reporting for noncontrolling interests in a consolidated subsidiary. SFAS 160 includes reporting requirements intended to clearly identify and differentiate the interests of the parent and the interests of the noncontrolling owners. The reporting requirements are required to be applied retrospectively. SFAS 160 is effective for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008. Early adoption is prohibited. We currently do not believe that the adoption of SFAS 160 will have a significant effect on our financial statements as we wholly own our subsidiaries.

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 amends and expands the disclosure requirements of SFAS 133, Accounting for Derivative Instruments and Hedging Activities, to provide improved transparency into the uses and financial statement impact of derivative instruments and hedging activities. We will be required to provide enhanced disclosures about how and why we use derivative instruments, how they are accounted for, and how they affect our financial performance. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. SFAS 161 is effective for us beginning December 31, 2008. We are currently assessing the impact that SFAS 161 will have on our consolidated results of operations and financial condition.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3 Determination of the Useful Life of Intangible Assets (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141 (revised 2007), *Business Combinations*, and other U.S. GAAP. FSP FAS 142-3 is effective for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008. The guidance for determining the useful life of a recognized intangible asset in

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paragraphs 7 11 of this FSP shall be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements in paragraphs 13 15 shall be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. Early adoption is prohibited. FSP FAS 142-3 is effective for us beginning January 1, 2009. We are currently assessing the impact that FSP FAS 142-3 will have on our consolidated results of operations and financial condition.

Note 2: Stock-Based Compensation

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123R, Share-Based Payment (SFAS 123R) using the modified-prospective transition method. Stock-based compensation expense is presented in the same income statement caption as cash compensation paid to the same employees or directors. During the three months ended March 31, 2008 and 2007, we recorded $1.2 million and $0.7 million, respectively in pre-tax stock-based compensation expense.

Included in selling, general and administrative (SG&A) stock-based compensation expense is $181 thousand and $117 thousand in pre-tax compensation expense for the three months ended March 31, 2008 and 2007, respectively, related to stock awards granted to outside directors.

Additionally, during the first quarter of 2008, as part of the annual review cycle, the Compensation Committee of the Board of Directors granted 115,926 shares of restricted stock to our executives under the 2006 Stock Incentive Plan. The awards were granted as part of a long-term incentive compensation plan to assist us in meeting our performance and retention objectives. Each executive grant is subject to a three-year vesting period. In accordance with SFAS 123R, compensation expense related to restricted stock awards is based on the fair value of the shares awarded as of the grant date. The fair value of non-vested shares is determined based on the average of the high and low trade prices of our company s shares on the grant date. For the three months ended March 31, 2008, the stock-based compensation expense related to this award was $228 thousand and is included in SG&A.

The income tax benefit under SFAS 123R from the recognition of stock-based compensation was $0.4 million and $0.2 million for the three months ended March 31, 2008 and 2007, respectively.

Stock-based compensation expense was included in the following:

	Three Months Ended March 31,	
(In thousands)	**2008**	**2007**
Cost of sales	$ 4	$ 6
Research and development	99	79
Selling, general and administrative	1,076	591
Stock-based compensation expense before income taxes	$ 1,179	$ 676

We estimate the fair value of share-based payment awards using the Black-Scholes option pricing model with the following assumptions and weighted average fair values:

	Three Months Ended March 31, [(1)]	
	2008	**2007**
Weighted average fair value of grants	$ 8.71	$ 8.79
Risk-free interest rate	2.67%	4.57%
Expected volatility	40.70%	44.16%
Expected life in years	4.75	5.37

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

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(Unaudited)

Stock option activity as of March 31, 2008 and changes for the three months ended March 31, 2008 were as follows:

	Number of Options (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2007	1,739	$16.83		
Granted	112	22.64		
Exercised	(15)	14.89		$ 137
Forfeited/ cancelled/ expired	(16)	26.07		
Outstanding at March 31, 2008	1,820	$17.12	5.59	$ 14,050
Vested and expected to vest at March 31, 2008	1,756	$16.81	5.46	$ 13,969
Exercisable at March 31, 2008	1,235	$14.04	4.16	$ 12,569

The aggregate intrinsic value in the table above represents total pre-tax intrinsic value (difference between Universal Electronics Inc. s average of the high and low trades of the last trading day of the first quarter of 2008 (March 31, 2008) and the option exercise price, multiplied by the number of the in-the-money options) that option holders would have received had all option holders exercised their options on March 31, 2008. This amount changes based on the fair market value of our common stock. The total intrinsic value of options exercised for the three months ended March 31, 2008 and 2007 was $0.1 million and $3.2 million, respectively.

As of March 31, 2008, we expect to recognize $4.5 million of total unrecognized compensation expense related to non-vested employee stock options over a weighted-average life of 2.2 years.

Non-vested restricted stock awards as of March 31, 2008 and changes during the three months ended March 31, 2008 were as follows:

	Shares Granted (in thousands)	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2007	10	$36.25
Granted	116	23.59
Vested	(15)	27.91
Forfeited		
Non-vested at March 31, 2008	111	$24.16

As of March 31, 2008, we expect to recognize $2.7 million in unrecognized compensation expense related to non-vested restricted stock awards over a weighted-average life of 2.6 years.

Note 3: Cash and Cash Equivalents

Cash and cash equivalents include cash accounts and all investments purchased with initial maturities of three months or less. We maintain cash and cash equivalents with various financial institutions. These financial institutions are located in many different geographic regions. We mitigate our exposure to credit risk by placing our cash and cash equivalents with high quality financial institutions.

At March 31, 2008, we had approximately $5.3 million and $78.1 million of cash and cash equivalents in the United States and Europe, respectively. At December 31, 2007, we had approximately $12.2 million and $74.4 million of cash and cash equivalents in the United States and Europe, respectively.

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Note 4: Accounts Receivable and Revenue Concentrations

Accounts receivable consisted of the following:

(In thousands)	March 31, 2008	December 31, 2007
Trade receivable, gross	$ 58,241	$ 63,528
Allowance for doubtful accounts	(2,587)	(2,330)
Allowance for sales returns	(2,232)	(1,482)
Net trade receivable	53,422	59,716
Other receivables [1]	456	430
Accounts receivable, net	$ 53,878	$ 60,146

(1) Other receivables as of March 31, 2008 and December 31, 2007 consisted primarily of a tenant improvement allowance provided by our landlord for the renovation and expansion of our corporate headquarters in Cypress, California. Construction was completed during the first quarter of 2008. We expect the tenant improvement allowance to be paid in the second quarter of 2008.

Significant Customers

We had sales to one significant customer that contributed more than 10% of total net sales. Sales made to this customer were $6.4 million and $10.1 million, representing 10.5% and 15.3% of our total net sales for the three months ended March 31, 2008 and 2007, respectively. Trade receivables with this customer amounted to $3.5 million and $2.3 million, or 6.5% and 3.8% of our net trade receivable at March 31, 2008 and December 31, 2007, respectively. In addition, we had sales to another customer and its sub-contractors that, when combined, totaled $9.3 million and $10.9 million, accounting for 15.1% and 16.5% of net sales for the three months ended March 31, 2008 and 2007, respectively. Trade receivables with this customer and its sub-contractors amounted to $5.3 million and $7.9 million, or 9.8% and 13.3% of our net trade receivable at March 31, 2008 and December 31, 2007, respectively.

The future loss of these customers or any key customer, either in the United States or abroad, due to the financial weakness or bankruptcy of any such customer or our inability to obtain orders or maintain our order volume with our major customers, may have an adverse effect on our financial condition, results of operations and cash flows.

Note 5: Inventories and Significant Suppliers

Inventories

Inventories, which consist of wireless control devices, including universal remote controls, antennas and related component parts, are valued at the lower of cost or market. Cost, which is determined using the first-in, first-out method includes the purchase of integrated circuits, sub-contractor costs and freight-in. We carry inventory in amounts necessary to satisfy our customers inventory requirements on a timely basis.

Product innovations and technological advances may shorten a given product s life cycle. We continually monitor inventory to control inventory levels and dispose of any excess or obsolete inventories on hand. We write down our inventory for estimated obsolescence or unmarketable inventory, in an amount equal to the difference between the cost of the inventory and its estimated market value based upon our best estimates about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Net inventories consisted of the following:

(In thousands)	**March 31, 2008**	**December 31, 2007**
Components	$ 9,161	$ 6,750
Finished goods	34,601	29,982
Reserve for inventory scrap	(1,669)	(1,826)
Inventory, net	$ 42,093	$ 34,906

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

During the three months ended March 31, 2008 and 2007 inventory write-downs totaled $0.3 million and $0.5 million, respectively. Inventory write-downs are a normal part of our business and result primarily from product life cycle estimation variances.

Significant Suppliers

Most of the components used in our products are available from multiple sources. We have elected to purchase integrated circuits (IC), used principally in our wireless control products, from two main sources. Purchases from one supplier amounted to more than 10% of total inventory purchases during the first quarter of 2008. Purchases from this major supplier amounted to $6.7 million and $5.3 million, representing 17.2% and 14.9% of total inventory purchases for the three months ended March 31, 2008 and 2007, respectively. Accounts payable with that supplier amounted to $2.5 million and $3.2 million, representing 8.3% and 10.8% of total accounts payable at March 31, 2008 and December 31, 2007, respectively.

In addition, during the three months ended March 31, 2008, we purchased component and finished good products from two major suppliers. Purchases from these two major suppliers amounted to $11.9 million and $6.6 million, representing 30.7% and 17.0%, respectively, of total inventory purchases for the three months ended March 31, 2008. During the three months ended March 31, 2007 purchases from the same two suppliers amounted to $9.8 million and $5.3 million, representing 27.6% and 15.0%, respectively, of total inventory purchases.

Accounts payable with the aforementioned two major suppliers of component and finished good products amounted to $7.7 million and $5.3 million, representing 25.9% and 17.8%, respectively, of total accounts payable at March 31, 2008. At December 31, 2007, accounts payable with the same suppliers amounted to $10.8 million and $6.3 million, representing 36.6% and 21.4%, respectively, of total accounts payable.

For the three months ended March 31, 2007, one other supplier provided more than 10% of total inventory purchases. Purchases from this supplier amounted to $3.9 million, representing 11.0% of total inventory purchases for the three months ended March 31, 2007.

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 chips, which could be used in part 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, or a reduction in their quality or reliability, or a significant increase in prices of components, would have an adverse effect on our business, results of operations and cash flows.

Note 6: Income Taxes

We use the estimated annual effective tax rate to determine our provision for income taxes for interim periods. We recorded income tax expense of $1.3 million for the three months ended March 31, 2008 compared to $2.2 million for the same period last year. Our estimated effective tax rate was 34.3% and 32.5% during the three months ended March 31, 2008 and 2007, respectively. The increase in our effective tax rate is due primarily to the federal research and development tax credit statute expiring at the end of 2007.

Effective January 1, 2007, we adopted the provisions of FASB Interpretation 48, Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109 (FIN 48). As a result of the implementation of FIN 48, we recognized a $0.2 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. We also recognized a decrease of $0.3 million in other comprehensive income related to foreign currency translation as of December 31, 2007.

At March 31, 2008, we had unrecognized tax benefits of approximately $9.1 million, including interest and penalties. Approximately $7.6 million of the total amount of unrecognized tax benefits at March 31, 2008 would affect the annual effective tax rate, if recognized. Further, we are unaware of any positions for which it is reasonably possible that the total amounts 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 $0.7 million within the next twelve months.

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