

UNIVERSAL ELECTRONICS INC

Form 10-K

March 14, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTIONS 13 OR

15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2011

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.

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(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of

33-0204817
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

6101 Gateway Drive

Cypress, California
(Address of Principal Executive Offices)

90630
(Zip Code)

Registrant's telephone number, including area code: (714) 820-1000

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$.01 per share
(Title of Class)

The NASDAQ Global Select Market
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if whether the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter was \$370,228,747 based upon the closing sale price as reported on

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the NASDAQ Global Select Market for that date.

On March 9, 2012, 14,893,928 shares of Common Stock, par value \$.01 per share, of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's notice of annual meeting of shareowners and proxy statement to be filed pursuant to Regulation 14A within 120 days after registrant's fiscal year end of December 31, 2011 are incorporated by reference into Part III of this Form 10-K. The Proxy Statement will be filed with the Securities and Exchange Commission no later than April 30, 2012.

Except as otherwise stated, the information contained in this Form 10-K is as of December 31, 2011.

Exhibit Index appears on page 84. This document contains 93 pages.

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UNIVERSAL ELECTRONICS INC.

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2011

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Forward-Looking Statements

This Annual Report on Form 10-K, including ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, contains statements that may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are statements that may be deemed forward-looking statements. Forward-looking statements include but are not limited to any projections of revenue, margins, expenses, tax provisions, earnings, cash flows, benefit obligations, share repurchases other financial items; plans, strategies and objectives of management for future operations; expected developments relating to products or services; labor issues, particularly in Asia; future economic conditions or performance; pending claims or disputes; expectation or belief; and assumptions underlying any of the foregoing.

These forward-looking statements are based upon management's assumptions. While we believe the forward-looking statements made in this report are based upon reasonable assumptions, any assumption is subject to a number of risks and uncertainties. If these risks and uncertainties ever materialize and management's assumptions prove incorrect, our results may differ materially from those expressed or implied by these forward-looking statements and assumptions. Further, any forward-looking statement speaks only as of the date the statement is made. We are not obligated to update forward-looking statements to reflect unanticipated events or circumstances occurring after the date the statement was made. New factors emerge from time to time. It is not possible for management to predict or assess the impact of all factors on the business, or the extent they may cause actual results to differ materially from those contained in any forward-looking statements. Therefore, forward-looking statements should not be relied upon as a prediction of actual future results.

Management assumptions that are subject to risks and uncertainties include those that are made about macroeconomic and geopolitical trends and events; foreign currency exchange rates; the execution and performance of contracts by customers, suppliers and partners; the challenges of managing asset levels, including inventory; the difficulty of aligning expense levels with revenue changes; the outcome of pending legislation and accounting pronouncements; and other risks described in this report, including those discussed in ITEM 1A. RISK FACTORS, ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS and described in our Securities and Exchange Commission filings subsequent to this report.

PART I

ITEM 1. BUSINESS

Business of Universal Electronics Inc.

Universal Electronics Inc. was incorporated under the laws of Delaware in 1986 and began operations in 1987. The principal executive offices are located at 6101 Gateway Drive, Cypress, California 90630. As used herein, the terms *we*, *us* and *our* refer to Universal Electronics Inc. and its subsidiaries unless the context indicates to the contrary.

Additional information regarding UEI may be obtained at www.uei.com. Our website address is not intended to function as a hyperlink and the information available at our website address is not incorporated by reference into this Annual Report on Form 10-K. We make our periodic and current reports, together with amendments to these reports, available on our website, free of charge, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the U.S. Securities and Exchange Commission (SEC). The SEC maintains a website at www.sec.gov that contains the reports, proxy and other information that we file electronically with the SEC.

Business Segment

Overview

Universal Electronics Inc. develops and manufactures a broad line of pre-programmed universal wireless remote control products, audio-video accessories, and software that are marketed to enhance home entertainment systems. Our offerings include the following:

easy-to-use, pre-programmed universal infrared (IR) and radio frequency (RF) remote controls that are sold primarily to subscription broadcasting providers (cable, satellite and IPTV), original equipment manufacturers (OEMs), retailers, and private label customers;

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audio-video (AV) accessories sold to consumers;

integrated circuits, on which our software and universal IR remote control database is embedded, sold primarily to OEMs, subscription broadcasting providers, and private label customers;

intellectual property which we license primarily to OEMs, software development companies, private label customers, and subscription broadcasting providers; and

software, firmware and technology solutions that can enable devices such as TVs, set-top boxes, stereos, automotive audio systems, cell phones and other consumer electronic devices to wirelessly connect and interact with home networks and interactive services to deliver digital entertainment and information.

Our business is comprised of one reportable segment.

Principal Products and Markets

Our principal markets include the subscription broadcasting, OEM, retail, and private label companies that operate in the consumer electronics market.

We provide subscription broadcasting providers, both domestically and internationally, with our universal remote control devices and integrated circuits, on which our software and IR code database library is embedded. We also sell our universal remote control devices and integrated circuits, on which our software and IR code database library is embedded, to OEMs that manufacture AV devices including digital set-top boxes.

For the years ended December 31, 2011, 2010, and 2009, our sales to DIRECTV and its sub-contractors collectively accounted for 12.2%, 13.7%, and 21.1% of our net sales, respectively. For the year ended December 31, 2011, our sales to Sony and its sub-contractors collectively accounted for 10.3% of our net sales. Our sales to Sony and its sub-contractors collectively did not exceed 10% of our net sales for the years ended December 31, 2010 and 2009. Our sales to Comcast Communications, Inc. and its sub-contractors collectively accounted for 12.9%, and 11.1% of our net sales for the years ended December 31, 2010 and 2009, respectively. Our sales to Comcast Communications, Inc. and its sub-contractors collectively did not exceed 10% of our net sales for the year ended December 31, 2011. No other single customer accounted for 10% or more of our net sales in 2011, 2010, or 2009.

We continue to pursue further penetration of the more traditional OEM consumer electronics markets. Customers in these markets package our wireless control devices for resale with their AV home entertainment products. Growth in this market has been driven by the proliferation and increasing complexity of home entertainment equipment, emerging digital technology, multimedia and interactive internet applications, and the increasing number of OEMs.

We continue to place significant emphasis on expanding our sales and marketing efforts to subscription broadcasters and OEMs in Asia, Latin America and Europe. On November 4, 2010, we acquired Enson Assets Limited (Enson) for total consideration of approximately \$125.8 million. Our acquisition of Enson enhances our ability to compete in the OEM and subscription broadcasting markets, particularly in Asia. In addition, during 2010 we opened a new subsidiary in Brazil, which has allowed us to increase our reach and better compete in the Latin American subscription broadcast market. We will continue to add new sales and administrative people to support anticipated sales growth in these markets over the next few years.

Our *One For All*[®] brand name remote control and accessories sold within the international retail markets accounted for 9.3%, 12.4%, and 12.6% of our total net sales for the years ended December 31, 2011, 2010, and 2009, respectively. Throughout 2011, we continued our international retail sales and marketing efforts. Financial information relating to our international operations for the years ended December 31, 2011, 2010, and 2009 is included in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-Notes to Consolidated Financial Statements-Note 15 .

Intellectual Property and Technology

We hold a number of patents in the United States and abroad related to our products and technology, and have filed domestic and foreign applications for other patents that are pending. We had a total of 223 and 206 issued and pending United States patents at the end of 2011 and

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2010, respectively. The increase in the number of issued and pending patents in the United States resulted from 22 new patent filings, offset by our abandonment of 5 patents.

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Our patents have remaining lives ranging from approximately one to eighteen years. We have also obtained copyright registration and claim copyright protection for certain proprietary software and libraries of IR codes. Additionally, the names of many of our products are registered, or are being registered, as trademarks in the United States Patent and Trademark Office and in most of the other countries in which such products are sold. These registrations are valid for terms ranging up to 20 years and may be renewed as long as the trademarks continue to be used and are deemed by management to be important to our operations. While we follow the practice of obtaining patent, copyright and trademark registrations on new developments whenever advisable, in certain cases, we have elected common law trade secret protection in lieu of obtaining such other protection.

Since our beginning in 1986, we have compiled an extensive IR code database library that covers over 606,500 individual device functions and approximately 4,500 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 database is 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.

Our proprietary software and know-how permit us to compress IR codes before we load them into our products. This provides significant cost and space efficiencies that enable us to include more codes and features in the memory space of our wireless control devices than are included in the similarly priced products of our competitors.

With today's rapidly changing technology, upgradeability ensures the compatibility of our remote controls with future home entertainment devices. We have developed patented technology that provides users the capability to easily upgrade the memory of our remote controls with IR codes that were not originally included using their entertainment device, personal computer or telephone. These options utilize one or two-way communication to upgrade the remote controls' IR codes or firmware depending on the requirements.

Each of our wireless control devices is designed to simplify the use of home entertainment and other equipment. To appeal to the mass market, the number of buttons is minimized to include only the most popular functions. Another ease of use feature we offer in several of our products is our user programmable macro key. This feature allows the user to program a sequence of commands onto a single key, to be played back each time that key is subsequently pressed.

Our remote controls are also designed for easy set-up. For most of our products, the consumer simply inputs a four-digit code for each device to be controlled. During 2010 and 2011, we continued to enhance our web-based EZ-RC™ Remote Control Setup Wizard application (which we first developed during 2007) (EZ-RC™) and released additional products capable of connecting to it. EZ-RC™ built on our strategy of developing new products and technologies to further simplify remote control set-up. Once our wireless device is connected to a personal computer, our customers may utilize EZ-RC™ graphical interface to fully program the remote control. Each remote control user may create their own personal profile on the device with their favorite channels, custom functions, and more. In addition, we launched products utilizing the EZ-RC™ application into the international retail market during the fourth quarter of 2008 and the North American retail market during the third quarter of 2009.

UEI QuickSet is a firmware application that may be embedded on an AV device, such as a set-top box. UEI QuickSet enables universal remote control set-up using guided on-screen instructions and a wireless two-way communication link between the remote and the UEI QuickSet embedded AV equipment. UEI's XMP technology, an extensible multimedia protocol, enables the two-way wireless communication between the universal remote control and the AV device, allowing IR code data and configuration settings to be sent to the remote control from the AV equipment. The user identifies the type and brand of the device to be controlled and then the UEI QuickSet application performs a test to confirm that the remote is controlling the equipment correctly. UEI QuickSet also saves the user-defined remote setting, enabling consumers to quickly transfer the setup configuration to a replacement remote. When the AV device has network connectivity, the IR code database and application may be continually updated to include the latest devices and functions.

During 2010, we released an upgrade to our UEI QuickSet application. The latest version of UEI QuickSet utilizes data transmitted over HDMI to automatically detect a connected device and then determine and download the correct code into the remote control without the need for the user to enter in any additional information. The user does not need to know the model number or brand to setup the device in the remote. Any new device that is connected is recognized. Consumers can easily and quickly set-up their remotes to control multiple devices.

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Also during 2010, we developed our Low Energy IR Engine (LowEIR). LowEIR uses a combination of silicon, hardware, and software to substantially reduce energy usage in IR remotes without sacrificing performance. With LowEIR, battery life may be extended by years on traditional two battery infrared remote control designs. LowEIR is compatible with all IR protocols and is especially efficient with our XMP® protocols. Implementation does not require any modifications to the target device and is scalable to support a wide range of performance requirements. Because LowEIR requires less energy, and potentially fewer batteries, this may reduce waste and tariffs, making it both an environmentally friendly option for consumers and a financially sound solution for device manufacturers and system operators.

Our Universal Remote Application Programming Interface (UAPI) is integrated into a remote and its target device, such as set-top box or television, allowing device manufacturers to extend existing remote control standards to deliver an enhanced consumer control experience. UAPI greatly reduces the time required to design and develop advanced, custom features that require synchronization between the remote and target device. UAPI enables support for a variety of new interface technologies, such as capacitive touch or optical finger navigation. In addition, UAPI has native support for the UEI QuickSet application which delivers simplified device setup experience. UAPI focuses on consumer-centric applications around the home theater experience and delivers a risk-free path for OEMs to develop solutions that extend the interface into the hands of the user.

Methods of Distribution

Our distribution methods for our remote control devices are dependent on the sales channel. We distribute remote control devices directly to subscription broadcasters and OEMs, both domestically and internationally. Outside of North America, we sell our wireless control devices and AV accessories under the *One For All*® and private label brand names to retailers through our international subsidiaries. We utilize third party distributors for the retail channel in countries where we do not have subsidiaries.

We have developed a broad portfolio of patented technologies and the industry's leading database of IR and RF codes. We ship integrated circuits, on which our software and code database is embedded, directly to manufacturers for inclusion in their products. In addition, we license our software and technology to manufacturers. Licenses are delivered upon the transfer of a product master or on a per unit basis when the software or technology is used in a customer device.

We provide domestic and international consumer support to our various universal remote control marketers, including manufacturers, cable and satellite providers, retail distributors, and audio and video original equipment manufacturers through our automated InterVoice system. Live agent help is available through certain programs. We also make available a free web-based support resource, www.urcsupport.com, designed specifically for subscription broadcasters. This solution offers interactive online demos and tutorials to help users easily setup their remote and commands, and as a result reduces call volume at customer support centers. Additionally, ActiveSupport®, a call center, provides customer interaction management services from service and support to retention. Pre-repair calls, post-install surveys, and inbound calls to customers provide greater bottom-line efficiencies. We continue to review our programs to determine their value in improving the sales of our products.

Our twenty-four international subsidiaries are the following:

Universal Electronics B.V., established in the Netherlands;

One For All GmbH, established in Germany;

One for All Iberia S.L., established in Spain;

One For All UK Ltd., established in the United Kingdom;

One For All Argentina S.R.L., established in Argentina;

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One For All France S.A.S., established in France;

Universal Electronics Italia S.R.L. established in Italy;

UE Singapore Pte. Ltd., established in Singapore;

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UEI Hong Kong Pte. Ltd., established in Hong Kong;

UEI Electronics Pte. Ltd., established in India;

UEI Cayman Inc., established in the Cayman Islands;

UEI Hong Kong Holdings Co. Pte. Ltd., established in Hong Kong;

Universal Electronics (Shenzhen) LLC., established in the PRC;

UEI Brasil Controles Remotos Ltda., established in Brazil;

Enson Assets Ltd., established in the British Virgin Islands;

C.G. Group Ltd., established in the British Virgin Islands;

C.G. Development Ltd., established in Hong Kong;

Gemstar Technology (China) Co. Ltd., established in the PRC;

Gemstar Technology (Yang Zhou) Co. Ltd., established in the PRC;

Gemstar Technology (Qinzhou) Co. Ltd., established in the PRC;

C.G. Technology Ltd., established in Hong Kong;

Gemstar Polyfirst Ltd., established in Hong Kong;

C.G. Timepiece Ltd., established in Hong Kong;

C.G. Asia Ltd., established in the British Virgin Islands.

Raw Materials and Dependence on Suppliers

We utilize our own manufacturing plants and third-party manufacturers and suppliers primarily located within the PRC to produce our remote control products. In 2011, Samsung provided 10.2% of our total inventory purchases. In 2010, Samsung and Computime each provided more than 10% of our total inventory purchases. They collectively provided 34.2% of our total inventory purchases for 2010. In 2009, Samsung, Computime, C.G. Development, and Samjin each provided more than 10% of our total inventory purchases. They collectively provided 77.4%

of our total inventory purchases for 2009.

Even though we own and operate two factories in the PRC and one assembly plant in Brazil, we continue to evaluate additional contract manufacturers and sources of supply. During 2011, we utilized multiple contract manufacturers and maintained duplicate tooling for certain of our products. Where possible we utilize standard parts and components, which are available from multiple sources. We continually seek additional sources to reduce our dependence on our integrated circuit suppliers. To further manage our integrated circuit supplier dependence, we include flash microcontroller technology in most of our products. Flash microcontrollers can have shorter lead times than standard microcontrollers and may be reprogrammed, if necessary. This allows us flexibility during any unforeseen shipping delays and has the added benefit of potentially reducing excess and obsolete inventory exposure. This diversification lessens our dependence on any one supplier and allows us to negotiate more favorable terms.

Seasonality

Historically, our business has been influenced by the retail sales cycle, with increased sales in the second half of the year. We expect this pattern to be repeated during 2012.

See ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA Notes to the Consolidated Financial Statements Note 22 for further details regarding our quarterly results.

Competition

Our principal competitors in the subscription broadcasting market are Contec, Philips Consumer Electronics, and Universal Remote Control. In the international retail and private label markets for wireless controls we compete with Logitech, Philips Consumer Electronics, Ruwido and Sony, as well as various manufacturers of wireless controls in

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Asia. Our primary competitors in the OEM market are the original equipment manufacturers themselves and wireless control manufacturers in Asia. We compete against Logitech, Philip Consumer Electronics, Ruwido, SMK, Universal Remote Control, and various manufacturers in Asia in the IR database market. We compete in our markets on the basis of product quality, features, price, intellectual property and customer support. We believe that we will need to continue to introduce new and innovative products to remain competitive and to recruit and retain competent personnel to successfully accomplish our future objectives.

Engineering, Research and Development

During 2011, our engineering efforts focused on the following:

modifying existing products and technologies to improve features and lower costs;

formulating measures to protect our proprietary technology and general know-how;

improving our software so that we may pre-program more codes into our memory chips;

broadening our product portfolio;

simplifying the set-up and upgrade process for our wireless control products; and

updating our library of IR codes to include IR codes for new features and devices introduced worldwide.

During 2011, our advanced engineering efforts focused on further developing our existing products, services and technologies. We released software updates to our web-based EZ-RC Remote Control Setup Wizard as well as our embedded UEI Quickset application. We continued development of our LowEIR technology solution and kicked off new development projects for emerging RF technologies, such as RF4CE, Bluetooth and WiFi Direct. We also began work on developing a Modular Remote Framework (MoRF) tool to support flexible portability of our software solutions to existing and future silicon platforms. Additionally, we also released several new models in our subscription broadcast, OEM and consumer retail channels during 2011.

On February 18, 2009, we acquired certain patents, intellectual property and other assets related to the universal remote control business from Zilog Inc. (NASDAQ: ZILG) for approximately \$9.5 million in cash. The purchase included Zilog's full library and database of infrared codes and software tools. We also hired 116 of Zilog's sales and engineering personnel, including all 107 of Zilog's personnel located in India. The engineering personnel acquired from Zilog are focused on the capture of IR codes and the development of firmware leading to more complete solutions to customer needs, the conceptual formulation and design of possible alternatives, as well as the testing of process and product cost improvements. These efforts enable us to provide customers with reductions in design cycle times, lower costs, and improvements in integrated circuit design, product quality and overall functional performance. These efforts also enable us to further penetrate existing markets, pursue new markets more effectively and expand our business.

Our personnel are involved with various industry organizations and bodies, which are in the process of setting standards for infrared, radio frequency, power line, telephone and cable communications and networking in the home. There can be no assurance that any of our research and development projects will be successfully completed.

Our expenditures on engineering, research and development were:

| (in millions): | 2011 | 2010 | 2009 |
|---|---------|---------|--------|
| Research and development ⁽¹⁾ | \$ 12.3 | \$ 10.7 | \$ 8.7 |

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| | | | |
|---|---------|---------|---------|
| Engineering ⁽²⁾ | 9.8 | 9.5 | 9.4 |
| Total engineering, research and development | \$ 22.1 | \$ 20.2 | \$ 18.1 |

⁽¹⁾ Research and development expense for the years ended 2011, 2010, and 2009 include \$0.3 million, \$0.5 million, and \$0.4 million of stock-based compensation expense, respectively.

⁽²⁾ Engineering costs are included in SG&A.

Environmental Matters

Many of our products are subject to various federal, state, local and international laws governing chemical substances in products, including laws regulating the manufacture and distribution of chemical substances and laws restricting the presence of certain substances in electronics products. We may incur substantial costs, including

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cleanup costs, fines and civil or criminal sanctions, third-party damages or personal injury claims, if we were to violate or become liable under environmental laws or if our products become non-compliant with environmental laws. We also face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the materials composition of our products.

We may also face significant costs and liabilities in connection with product take-back legislation. The European Union enacted the Waste Electrical and Electronic Equipment Directive (WEEE), which makes producers of electrical goods, including computers and printers, financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. Our European subsidiaries are WEEE compliant. Similar legislation has been or may be enacted in other jurisdictions, including in the United States, Canada, Mexico, PRC and Japan.

We believe that we have materially complied with all currently existing international and domestic federal, state and local statutes and regulations regarding environmental standards and occupational safety and health matters to which we are subject. During the years ended December 31, 2011, 2010 and 2009, the amounts incurred in complying with federal, state and local statutes and regulations pertaining to environmental standards and occupational safety and health laws and regulations did not materially affect our earnings or financial condition. However, future events, such as changes in existing laws and regulations or enforcement policies, may give rise to additional compliance costs that may have a material adverse effect upon our capital expenditures, earnings or financial condition.

Employees

At December 31, 2011, we employed 1,868 employees, of which 426 worked in engineering and research and development, 80 in sales and marketing, 140 in consumer service and support, 994 in operations and warehousing and 228 in executive and administrative functions. In addition, Enson has an additional 7,935 staff contracted through agency agreements.

Labor unions represent approximately 4.2% of our 1,868 employees. These unionized workers, employed within Manaus, Brazil, are represented under contract with the Sindicato dos Trabalhadores das Industrias de Aparelhos Eléctricos, Eletrônicos e Similares de Manaus. Our business units are subject to various laws and regulations relating to their relationships with their employees. These laws and regulations are specific to the location of each business unit. We believe that our relationships with employees and their representative organizations are good.

International Operations

Financial information relating to our international operations for the years ended December 31, 2011, 2010 and 2009 is incorporated by reference to ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA Notes to Consolidated Financial Statements Note 15 .

Executive Officers of the Registrant⁽¹⁾

The following table sets forth certain information concerning our executive officers on March 14, 2012:

| Name | Age | Position |
|----------------------------|-----|---|
| Paul D. Arling | 49 | Chairman of the Board and Chief Executive Officer |
| Paul J.M. Bennett | 56 | Executive Vice President, Managing Director, Europe |
| Mark S. Kopaskie | 54 | Executive Vice President, General Manager U.S. Operations |
| Richard A. Firehammer, Jr. | 54 | Senior Vice President, General Counsel and Secretary |
| Bryan M. Hackworth | 42 | Senior Vice President and Chief Financial Officer |

⁽¹⁾ Included pursuant to Instruction 3 to Item 401(b) of Regulation S-K.

Paul D. Arling is our Chairman and Chief Executive Officer. He joined us in May 1996 as Chief Financial Officer and was named to our Board of Directors in August 1996. He was appointed President and COO in September 1998, was promoted to Chief Executive Officer in October 2000 and appointed as Chairman in July 2001. At the 2011 Annual Meeting of Stockholders, Mr. Arling was re-elected as our Chairman to serve until the 2012 Annual Meeting of Stockholders. From 1993 through May 1996, he served in various capacities at LESCO, Inc. (a manufacturer and distributor of professional turf care products). Prior to LESCO, he worked for Imperial Wall coverings (a manufacturer and distributor of wall covering products) as Director of Planning, and The Michael Allen Company (a strategic management consulting company) where he was employed as a management consultant.

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Paul J.M. Bennett is our Executive Vice President and Managing Director, Europe. He was our Managing Director and Senior Vice President, Managing Director, Europe from July 1996 to December 2006. He was promoted to his current position in December 2006. Prior to joining us, he held various positions at Philips Consumer Electronics over a seven year period, first as Product Marketing Manager for the Accessories Product Group, initially set up to support Philips Audio division, and then as head of that division.

Mark S. Kopaskie is our Executive Vice President and General Manager, U.S. Operations. He rejoined us in September 2006 as our Senior Vice President and General Manager, U.S. Operations and was promoted to his current position in December 2006. He was our Executive Vice President and Chief Operating Officer from 1995 to 1997. From 2003 until November 2005, Mr. Kopaskie was President and Chief Executive Officer of Packaging Advantage Corporation (PAC), a personal care and household products manufacturer, which was acquired by Marietta Corporation in November 2005. Following the acquisition, he served as Senior Vice President, Business Development for Marietta Corporation. From 1997 to 2003, he held senior management positions at Birdair Inc., a world leader in the engineering, manufacturing, and construction of tensioned membrane structures, and OK International, a manufacturer and marketer of fluid dispensing equipment, solder and de-solder systems, and wire wrap products. Prior to joining us in 1995, Mr. Kopaskie was Senior Vice President of Operations at Mr. Coffee Inc.

Richard A. Firehammer, Jr., Esq. has been our Senior Vice President since February 1999. He has been our General Counsel since October 1993 and Secretary since February 1994. He was our Vice President from May 1997 until August 1998. He was outside counsel to us from September 1998 until being rehired in February 1999. From November 1992 to September 1993, he was associated with the Chicago, Illinois law firm, Shefsky & Froelich, Ltd. From 1987 to 1992, he was with the law firm, Vedder, Price, Kaufman & Kammholz in Chicago, Illinois.

Bryan M. Hackworth is our Senior Vice President and Chief Financial Officer. He was promoted to Chief Financial Officer in August 2006. Mr. Hackworth joined us in June 2004 as Corporate Controller and subsequently assumed the role of Chief Accounting Officer in May 2006. Before joining us in 2004, he spent five years at Mars, Inc., a privately held international manufacturer and distributor of consumer products and served in several financial and strategic roles (Controller – Ice Cream Division; Strategic Planning Manager for the WHISKAS® Brand) and various other financial management positions. Prior to joining Mars Inc., Mr. Hackworth spent six years at Deloitte & Touche LLP as an auditor, specializing in the manufacturing and retail industries.

ITEM 1A. RISK FACTORS

Forward Looking Statements

We caution that the following important factors, among others (including, but not limited to, factors discussed below in ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, as well as those factors discussed elsewhere in this Annual Report on Form 10-K, or in our other reports filed from time to time with the Securities and Exchange Commission), may affect our actual results and may contribute to or cause our actual consolidated results to differ materially from those expressed in any of our forward-looking statements. The factors included here are not exhaustive. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor can we assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Therefore, forward-looking statements should not be relied upon as a prediction of actual future results.

While we believe that the forward-looking statements made in this report are based on reasonable assumptions, the actual outcome of such statements is subject to a number of risks and uncertainties, including the 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 of 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, digital media/technology, CEDIA, and interactive TV industries not materializing or growing as we believed; our inability to add profitable complementary products which are accepted by the marketplace; our inability to attract and retain quality workforce at adequate

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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 realize tax benefits from various tax projects initiated from time to time; 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; 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 Securities and Exchange Commission.

Risks Related to Doing Business in the People's Republic of China

Changes in the policies of the People's Republic of China (PRC) government may have a significant impact upon the business we may be able to conduct in the PRC and the profitability of such business.

Our business operations may be adversely affected by the current and future political environment in the PRC. The PRC has operated as a socialist state since the mid-1900s and is controlled by the PRC's Communist Party. The Chinese government exerts substantial influence and control over the manner in which we must conduct our business activities. The PRC has only permitted provincial and local economic autonomy and private economic activities since 1988. The government of the PRC has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy, through regulation and state ownership. Our ability to operate in the PRC may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, labor and social insurance, import and export tariffs, raw materials, environmental regulations, land use rights, property and other matters. Under current leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of the PRC will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

The PRC's economy is in a transition from a planned economy to a market oriented economy subject to five-year and annual plans adopted by the government that set national economic development goals. Policies of the PRC government may have significant effects on the economic conditions of the PRC. The PRC government has confirmed that economic development will follow the model of a market economy. Under this direction, we believe that the PRC will continue to strengthen its economic and trading relationships with foreign countries and business development in the PRC will follow market forces. While we believe that this trend will continue, there can be no assurance that this will be the case.

A change in policies by the PRC government may adversely affect our interests by, among other factors: changes in laws, regulations or the interpretation thereof, confiscatory taxation, restrictions on currency conversion, imports or sources of supplies, or the expropriation or nationalization of private enterprises. Although the PRC government has been pursuing economic reform policies for more than two decades, there is no assurance that the government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption, or other circumstances affecting the PRC's political, economic and social life.

The PRC laws and regulations governing our current business operations are sometimes vague and uncertain. Any changes in such PRC laws and regulations may harm our business.

The PRC laws and regulations governing our current business operations are sometimes vague and uncertain. The PRC's legal system is a civil law system based on written statutes, in which decided legal cases have little value as precedents unlike the common law system prevalent in the United States. There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to the laws and regulations governing our business, or the enforcement and performance of our arrangements with customers in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. The Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, labor and social insurance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied

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retroactively. We are considered a foreign person or foreign funded enterprise under PRC laws, and as a result, we are required to comply with PRC laws and regulations. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our businesses. If the relevant authorities find that we are in violation of PRC laws or regulations, they would have broad discretion in dealing with such a violation, including, without limitation:

levying fines;

revoking our business and other licenses;

requiring that we restructure our ownership or operations; and

requiring that we discontinue any portion or all of our business.

The fluctuation of the Chinese Yuan Renminbi may harm your investment.

Under Chinese monetary policy, the Chinese Yuan Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This policy, which was initiated during 2005, has resulted in an approximately 28.9% appreciation of the Chinese Yuan Renminbi against the U.S. dollar as of December 31, 2011. While the international reaction to the Chinese Yuan Renminbi revaluation has been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Chinese Yuan Renminbi against the U.S. dollar.

The PRC's legal and judicial system may not adequately protect our business and operations and the rights of foreign investors.

The PRC legal and judicial system may negatively impact foreign investors. In an amendment to the PRC's Constitution, foreign investment and the guarantee of the lawful rights and interests of foreign investors in the PRC was made possible. However, the PRC's system of laws is not yet comprehensive. The legal and judicial systems in the PRC are still rudimentary, and enforcement of existing laws is inconsistent. The PRC judiciary is relatively inexperienced in enforcing the laws that do exist, resulting in judicial decision-making that is more uncertain than would be expected elsewhere in the world. It may be impossible to obtain swift and equitable enforcement of laws that do exist, or to obtain enforcement of the judgment of one court by a court of another jurisdiction. The PRC's legal system is based on the civil law regime, that is, it is based on written statutes; a decision by one judge does not set a legal precedent that is required to be followed by judges in other cases. In addition, the interpretation of Chinese laws may be varied to reflect domestic political changes.

The promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign investors. However, the trend of legislation since the amendment to the PRC's Constitution has significantly enhanced the protection of foreign investment and allowed for more control by foreign parties of their investments in Chinese enterprises. There can be no assurance that a change in leadership, social or political disruption, or unforeseen circumstances affecting the PRC's political, economic or social life, will not affect the PRC government's ability to continue to support and pursue these reforms. Such a shift may have a material adverse effect on our business and prospects.

Availability of adequate workforce levels

Presently, the vast majority of workers at our PRC factories are obtained from third-party employment agencies. As the labor laws, social insurance and wage levels continue to mature and grow and the workers become more sophisticated, our costs to employ these and other workers in the PRC may grow beyond that anticipated by management. In addition, as the PRC market continues to open up and grow, with the advent of more companies opening plants and businesses in the PRC, we could experience an increase in competing for the same workers, resulting in either an inability to attract and retain an adequate number of qualified workers or an increase in our employment costs to obtain and retain these workers.

Expansion in the PRC

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As our global business grows, we may decide to expand in China to meet demand. This would be dependent on our ability to locate suitable facilities to support this expansion, to obtain the necessary permits and funding, to attract and retain adequate levels of qualified workers, and to enter into a long term land lease that is common in the PRC.

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Any recurrence of severe acute respiratory syndrome, or SARS, or other widespread public health problems, could harm our operations.

A renewed outbreak of SARS or other widespread public health problems (such as bird flu and swine flu) in the PRC could significantly harm our operations. Our operations may be impacted by a number of health-related factors, including quarantines or closures of some of our offices that would adversely disrupt our operations. Any of the foregoing events or other unforeseen consequences of public health problems could significantly harm our operations.

Risks Related to the Recent Financial Crisis and Severe Tightening in the Global Credit Markets

General economic conditions, both domestic and international, have an impact on our business and financial results. The ongoing global financial crisis affecting the banking system and financial markets has resulted in a severe tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in credit and equity markets. This financial crisis may impact our business in a number of ways, including:

Potential deferment of purchases and orders by customers

Uncertainty about current and future global economic conditions may cause consumers, businesses and governments to defer purchases in response to tighter credit, decreased cash availability and declining consumer confidence. Accordingly, future demand for our products may differ materially from our current expectations.

Customers inability to obtain financing to make purchases from us and/or maintain their business

Some of our customers require substantial financing in order to fund their operations and make purchases from us. The inability of these customers to obtain sufficient credit to finance purchases of our products may adversely impact our financial results. In addition, if the financial crisis results in insolvencies for our customers, it may adversely impact our financial results.

Potential impact on trade receivables

Credit market conditions may slow our collection efforts as customers experience increased difficulty in obtaining requisite financing, leading to higher than normal accounts receivable balances and longer DSOs. This may result in greater expense associated with collection efforts and increased bad debt expense.

Negative impact from increased financial pressures on third-party dealers, distributors and retailers

We make sales in certain regions of the world through third-party dealers, distributors and retailers. Although many of these third parties have significant operations and maintain access to available credit, others are smaller and more likely to be impacted by the significant decrease in available credit that has resulted from the current financial crisis. If credit pressures or other financial difficulties result in insolvency for these third parties and we are unable to successfully transition our end customers to purchase products from other t