UNIVERSAL ELECTRONICS INC
Form 10-Q
November 08, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

¨ **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	**(I.R.S. Employer**
Incorporation or Organization)	**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 x No ¨

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 14,764,481shares of Common Stock, par value $0.01 per share, of the registrant were outstanding on November 3, 2011.

Table of Contents

UNIVERSAL ELECTRONICS INC.

INDEX

	Page
PART I. FINANCIAL INFORMATION	3
Item 1. Consolidated Financial Statements (Unaudited)	3
Consolidated Balance Sheets	3
Consolidated Income Statements	4
Consolidated Statements of Cash Flows	5
Notes to the Consolidated Financial Statements	6
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3. Quantitative and Qualitative Disclosures About Market Risk	36
Item 4. Controls and Procedures	37
PART II. OTHER INFORMATION	38
Item 1. Legal Proceedings	38
Item 1A. Risk Factors	38
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	38
Item 6. Exhibits	40
Signature	41
Exhibit Index	42

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Consolidated Financial Statements (Unaudited)

UNIVERSAL ELECTRONICS INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share-related data)

(Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 32,000	$ 54,249
Accounts receivable, net	88,983	86,304
Inventories, net	84,818	65,402
Prepaid expenses and other current assets	2,072	2,582
Deferred income taxes	6,173	5,896
Total current assets	214,046	214,433
Property, plant, and equipment, net	80,237	78,097
Goodwill	30,857	30,877
Intangible assets, net	33,566	35,994
Other assets	5,335	5,464
Deferred income taxes	7,776	7,806
Total assets	$ 371,817	$ 372,671
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 63,623	$ 56,086
Notes payable	18,400	35,000
Accrued sales discounts, rebates and royalties	6,408	7,942
Accrued income taxes	3,891	5,873
Accrued compensation	28,530	30,634
Deferred income taxes	55	
Other accrued expenses	13,693	13,295
Total current liabilities	134,600	148,830
Long-term liabilities:		
Deferred income taxes	11,508	11,369
Income tax payable	1,212	1,212
Other long-term liabilities	5	56
Total liabilities	147,325	161,467
Commitments and contingencies		
Stockholders equity:		

Preferred stock, $0.01 par value, 5,000,000 shares authorized; none issued or outstanding		
Common stock, $0.01 par value, 50,000,000 shares authorized; 21,076,830 and 20,877,248 shares issued on September 30, 2011 and December 31, 2010, respectively	211	209
Paid-in capital	172,264	166,940
Accumulated other comprehensive income (loss)	1,628	(489)
Retained earnings	149,102	134,070
	323,205	300,730
Less cost of common stock in treasury, 6,344,642 and 5,926,071 shares on September 30, 2011 and December 31, 2010, respectively	(98,713)	(89,526)
Total stockholders equity	224,492	211,204
Total liabilities and stockholders equity	$ 371,817	$ 372,671

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

Table of Contents

UNIVERSAL ELECTRONICS INC.

CONSOLIDATED INCOME STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales	$ 123,527	$ 79,007	$ 350,985	$ 229,275
Cost of sales	89,349	53,289	254,284	154,068
Gross profit	34,178	25,718	96,701	75,207
Research and development expenses	2,861	2,687	9,275	7,944
Selling, general and administrative expenses	21,852	16,465	67,116	50,694
Operating income	9,465	6,566	20,310	16,569
Interest (expense) income, net	(56)	(1)	(210)	99
Other (expense) income, net	(353)	40	(771)	62
Income before provision for income taxes	9,056	6,605	19,329	16,730
Provision for income taxes	(1,972)	(1,903)	(4,297)	(5,415)
Net income	$ 7,084	$ 4,702	$ 15,032	$ 11,315
Earnings per share:				
Basic	$ 0.48	$ 0.35	$ 1.00	$ 0.83
Diluted	$ 0.47	$ 0.34	$ 0.98	$ 0.81
Shares used in computing earnings per share:				
Basic	14,887	13,417	14,963	13,572
Diluted	15,147	13,671	15,312	13,897

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

Table of Contents

UNIVERSAL ELECTRONICS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine months Ended September 30,	
	2011	**2010**
Cash provided by operating activities:		
Net income	$ 15,032	$ 11,315
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,907	4,660
Provision for doubtful accounts	241	661
Provision for inventory write-downs	3,610	2,651
Deferred income taxes	26	17
Tax benefit from exercise of stock options and vested restricted stock	399	102
Excess tax benefit from stock-based compensation	(422)	(131)
Shares issued for employee benefit plan	592	375
Stock-based compensation	3,280	3,757
Changes in operating assets and liabilities:		
Accounts receivable	(2,772)	4,508
Inventories	(22,172)	(6,806)
Prepaid expenses and other assets	674	1,158
Accounts payable and accrued expenses	2,456	(8,229)
Accrued income taxes	(2,049)	(3,407)
Net cash provided by operating activities	11,802	10,631
Cash used for investing activities:		
Term deposit		(290)
Acquisition of property, plant, and equipment	(10,140)	(4,449)
Acquisition of intangible assets	(814)	(1,061)
Net cash used for investing activities	(10,954)	(5,800)
Cash used for financing activities:		
Payment of debt	(16,600)	
Proceeds from stock options exercised	1,381	257
Treasury stock purchased	(9,512)	(9,835)
Excess tax benefit from stock-based compensation	422	131
Net cash used for financing activities	(24,309)	(9,447)
Effect of exchange rate changes on cash	1,212	(953)
Net decrease in cash and cash equivalents	(22,249)	(5,569)
Cash and cash equivalents at beginning of period	54,249	29,016
Cash and cash equivalents at end of period	$ 32,000	$ 23,447

Supplemental Cash Flow Information *We had net income tax payments of $6.9 million and $8.9 million during the nine months ended September 30, 2011 and 2010, respectively. We had interest payments of $0.3 million and $0 during the nine months ended September 30, 2011 and 2010, respectively.*

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

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation and Significant Accounting Policies

In the opinion of management, the accompanying consolidated financial statements of Universal Electronics Inc. and its wholly-owned subsidiaries contain all the adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented. All such adjustments are of a normal recurring nature and certain reclassifications have been made to prior year amounts in order to conform to the current year presentation. Information and footnote disclosures normally included in financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. As used herein, the terms Company, we, us and our refer to Universal Electronics Inc. and its subsidiaries, unless the context indicates to the contrary.

Our results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the Risk Factors, Management Discussion and Analysis of Financial Conditions and Results of Operations, Quantitative and Qualitative Disclosures About Market Risk, and the Financial Statements and Supplementary Data and notes thereto included in Items 1A, 7, 7A, and 8, respectively, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Estimates, Judgments and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates, judgments and assumptions, including those related to revenue recognition, allowance for sales returns and doubtful accounts, warranties, inventory valuation, business combination purchase price allocations, impairment of long-lived assets, intangible assets and goodwill, income taxes, accrued compensation and stock-based compensation expense. Actual results may differ from our expectations. Based on our evaluation, our estimates, judgments and assumptions may be adjusted as more information becomes available. Any adjustment may be material.

See Note 2 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010 for a summary of our significant accounting policies.

New Accounting Pronouncements

During September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-08, Testing Goodwill for Impairment. The amendments in ASU 2011-08 are intended to reduce the cost and complexity associated with goodwill impairment tests required under the Accounting Standard Codification Topic 350 Intangibles Goodwill and Other. The update permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The amendments in this update are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-08 is not expected to have a significant impact to our consolidated financial position or results of operations.

During June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders equity and requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This pronouncement is effective for fiscal years, and interim periods within

Table of Contents

those years, beginning after December 15, 2011. The adoption of ASU 2011-05 will result in changes to our presentation and disclosure only and will not have an impact on our consolidated results of operations and financial condition.

During May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). This pronouncement was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. This pronouncement is effective for reporting periods beginning on or after December 15, 2011. The adoption of ASU 2011-04 is not expected to have a significant impact to our consolidated financial position or results of operations.

Recently Adopted Accounting Pronouncements

During January 2010, the FASB issued ASU No. 2010-6 to improve the disclosure and transparency of fair value measurements. These amendments clarify the level of disaggregation required, and the necessary disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The amendments in the update are effective prospectively for interim and annual periods beginning on or after December 15, 2009, except for the separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements, which are effective for fiscal years beginning on or after December 15, 2010, and for interim periods within those fiscal years. We adopted the portion of this ASU that was effective beginning on or after December 15, 2010, beginning January 1, 2011. The adoption of this ASU did not have a material effect on our consolidated results of operations and financial condition.

During December 2010, the FASB issued ASU No. 2010-29 to address diversity in practice regarding the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. ASC 805- 10-50-2(h) requires a public entity to disclose pro forma information for business combinations that occurred during the current annual reporting period. The disclosures include combined pro forma revenue and earnings as though the acquisition date for all business combinations during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. In practice, some preparers have presented the pro forma information in their comparative financial statements as if the business combination that occurred in the current reporting period had occurred as of the beginning of each of the current and prior annual reporting periods. Other preparers have disclosed the pro forma information as if the business combination occurred at the beginning of the prior annual reporting period only, and carried forward the related adjustments, if applicable, through the current reporting period. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in this update also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. We adopted this ASU beginning January 1, 2011. The adoption of this ASU did not have a material effect on our consolidated results of operations and financial condition.

In October 2009, the FASB issued ASU No. 2009-14 to address accounting for arrangements that contain tangible products and software. The amendments in this update clarify what guidance should be utilized in allocating and measuring revenue for products that contain software that is more than incidental to the product as a whole. Currently, products that contain software that is more than incidental to the product as a whole are within the scope of software accounting guidance. Software accounting guidance requires a vendor to use vendor-specific objective evidence (VSOE) of selling price to separate the software from the product and account for the two elements as a multiple-element arrangement. A vendor must sell, or intend to sell, a particular element separately to assert VSOE for that element. Third-party evidence for selling price is not allowed under the software accounting model. If a vendor does not have VSOE for the undelivered elements in the arrangement, the revenue associated with both the delivered and undelivered elements is combined into one unit of accounting. Any revenue attributable to the delivered elements is then deferred and recognized at a later date, which in many cases is as the undelivered elements are delivered by the vendor. This ASU addresses concerns that the current accounting model may not appropriately reflect the economics of the underlying transactions because no revenue is recognized for some products for which the vendor has already completed the related performance. In addition, this ASU addresses the concern that more software enabled products fall within the scope of the current software accounting model than was originally intended because of ongoing technical advancements. The amendments in the update are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We adopted this ASU beginning January 1, 2011. The adoption of this ASU did not have a material effect on our consolidated results of operations and financial condition.

In October 2009, the FASB issued ASU No. 2009-13 to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined accounting unit. Current accounting guidance requires a vendor to use VSOE or third-party evidence (TPE) of selling price to separate deliverables in a multiple-deliverable arrangement. VSOE of selling price is the price charged for a deliverable when it is sold separately or, for a deliverable not yet being sold separately, the price established by management with the appropriate authority. If a vendor does not have VSOE for the undelivered elements in the arrangement, the revenue associated with both the delivered and undelivered elements is combined into one unit of accounting. Any revenue attributable to the delivered products is then deferred and recognized at a later date, which in many cases is as the undelivered elements are delivered by the vendor. An exception to this guidance exists if the vendor has VSOE or TPE of selling price for the undelivered elements in the arrangement but not for the delivered elements. In those situations, the vendor uses the residual value method to allocate revenue to the delivered element, which results in the allocation of the entire discount in the arrangement, if any, to the delivered element. This ASU addresses concerns that the current accounting model may not appropriately reflect the economics of the underlying transactions because sometimes no revenue is recognized for products for which the vendor has already completed the related performance. As a result of this amendment, multiple element arrangements will be separated into multiple units of accounting in more circumstances than under the existing accounting model. This amendment establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price utilized for each deliverable will be based on VSOE if available, TPE if VSOE is not available, or estimated selling price if neither VSOE or TPE evidence is available. The residual method is eliminated. The amendments in the update are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We adopted this ASU beginning January 1, 2011. The adoption of this ASU did not have a material effect on our consolidated results of operations and financial condition.

Note 2: Cash and Cash Equivalents

Our cash and cash equivalents that were accounted for at fair value on a recurring basis on September 30, 2011 and December 31, 2010 were the following:

	September 30, 2011				December 31, 2010			
(In thousands)	**Fair Value Measurement Using**			**Total**	**Fair Value Measurement Using**			**Total**
Description	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Balance**	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Balance**
Cash and cash equivalents	$ 32,000	$	$	$ 32,000	$ 54,249	$	$	$ 54,249

On September 30, 2011, we had approximately $6.3 million, $6.1 million, $18.7 million, $13 thousand and $0.9 million of cash and cash equivalents in the United States, Europe, Asia, Cayman Islands, and South America, respectively. On December 31, 2010, we had approximately $6.5 million, $15.0 million, $27.8 million, $4.0 million, and $0.9 million of cash and cash equivalents in the United States, Europe, Asia, Cayman Islands and South America, respectively.

See Note 2 under the caption *Cash, Cash Equivalents, and Term Deposit* in our Annual Report on Form 10-K for further information regarding our accounting principles.

Table of Contents

Note 3: Accounts Receivable, net and Revenue Concentrations

Accounts receivable, net consisted of the following on September 30, 2011 and December 31, 2010:

(In thousands)	September 30, 2011	December 31, 2010
Trade receivables, gross	$ 90,748	$ 88,485
Allowance for doubtful accounts	(1,003)	(878)
Allowance for sales returns	(928)	(1,366)
Trade receivables, net	88,817	86,241
Other receivables	166	63
Accounts receivable, net	$ 88,983	$ 86,304

Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts during the three and nine months ended September 30, 2011 and 2010 were the following:

(In thousands) Description	Balance at Beginning of Period	Additions to Costs and Expenses	(Write-offs)/ FX Effects	Balance at End of Period
Valuation account for trade receivables				
Three months ended September 30, 2011	$ 1,105	$ 12	$ (114)	$ 1,003
Three months ended September 30, 2010	$ 2,735	$ 47	$ (1,691)	$ 1,091

Changes in the allowance for doubtful accounts during the nine months ended September 30, 2011 and 2010 were the following:

(In thousands) Description	Balance at Beginning of Period	Additions to Costs and Expenses	(Write-offs)/ FX Effects	Balance at End of Period
Valuation account for trade receivables				
Nine months ended September 30, 2011	$ 878	$ 251	$ (126)	$ 1,003
Nine months ended September 30, 2010	$ 2,423	$ 762	$ (2,094)	$ 1,091

Sales Returns

The allowance for sales returns balance at September 30, 2011 and December 31, 2010 contained reserves for items returned prior to year-end, but were not completely processed, and therefore had not yet been removed from the allowance for sales returns balance. If these returns had been fully processed, the allowance for sales returns balance would have been approximately $0.6 million and $0.9 million on September 30, 2011 and December 31, 2010, respectively. The value of these returned goods was included in our inventory balance at September 30, 2011 and December 31, 2010.

Table of Contents

Significant Customers

During the three months ended September 30, 2011, we had net sales to one significant customer (customer A), that when combined with their subcontractors, totaled to more than 10% of our net sales. During the nine months ended September 30, 2011, we had net sales to two significant customers (customers A and C), that when combined with their subcontractors, each totaled to more than 10% of our net sales. During the three and nine months ended September 30, 2010, we had net sales to two significant customers (customers A and B), that when combined with their subcontractors, each totaled to more than 10% of our net sales as follows:

	Three Months Ended September 30,			
	2011		2010	
	$ (thousands)	% of Net Sales	$ (thousands)	% of Net Sales
Customer A	$ 16,045	13.0%	$ 11,540	14.6%
Customer B			$ 11,141	14.1%
Customer C				

	Nine Months Ended September 30,			
	2011		2010	
	$ (thousands)	% of Net Sales	$ (thousands)	% of Net Sales
Customer A	$ 36,571	10.4%	$ 30,710	13.4%
Customer B			$ 31,057	13.5%
Customer C	$ 38,456	11.0%		

Trade receivables with these customers were the following on September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
	$ (thousands)	% of Accounts Receivable, Net	$ (thousands)	% of Accounts Receivable, Net
Customer A	$ 9,325	10.5%	$ 9,481	11.0%
Customer B			$ 4,786	5.5%
Customer C	$ 9,199	10.3%		

We had a fourth customer that accounted for greater than 10% of accounts receivable, net on December 31, 2010, but did not account for greater than 10% of net sales for the year then ended. Trade receivables with this customer amounted to $10.5 million, or 12.1%, of our accounts receivable, net on December 31, 2010.

The loss of these customers or any other customer, either in the United States or abroad, due to their financial weakness or bankruptcy, or our inability to obtain orders or maintain our order volume with them, may have a material effect on our financial condition, results of operations and cash flows.

See Note 2 under the captions *Revenue Recognition and Sales Allowances* and *Financial Instruments* in our Annual Report on Form 10-K for further information regarding our accounting principles.

Note 4: Inventories, net and Significant Suppliers

Inventories, net consisted of the following on September 30, 2011 and December 31, 2010:

(In thousands)	September 30, 2011	December 31, 2010
Raw materials	$ 18,599	$ 15,864

Components [1]	19,880	10,358
Work in process	2,819	2,885
Finished goods [2]	46,497	38,430
Reserve for excess and obsolete inventory	(2,977)	(2,135)
Inventories, net	$ 84,818	$ 65,402

(1) During the nine months ended September 30, 2011, we increased our safety stock of certain components, including integrated circuits, as a result of uncertainties regarding the ultimate effect that the Tsunami in Japan and the Golden Week holiday in the People s Republic of China would have on our supply chain.

(2) Finished goods increased $8.1 million, or 21%, from $38.4 million on December 31, 2010 to $46.5 million on September 30, 2001. During the second quarter of 2011, we altered our shipping terms with a significant customer which resulted in us holding title to inventories until shipments are received by them. Prior to altering our shipping terms, title transferred to this significant customer at the shipping point.

Table of Contents

Reserve for Excess and Obsolete Inventory

Changes in the reserve for excess and obsolete inventory during the three months ended September 30, 2011 and 2010 were composed of the following:

(In thousands) Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses[1]	Sell Through[2]	Write-offs/ FX Effects	Balance at End of Period
Reserve for excess and obsolete inventory:					
Three Months Ended September 30, 2011	$ 2,525	$ 1,243	$ (289)	$ (502)	$ 2,977
Three Months Ended September 30, 2010	$ 1,961	$ 622	$ (264)	$ (286)	$ 2,033

Changes in the reserve for excess and obsolete inventory during the nine months ended September 30, 2011 and 2010 were composed of the following:

(In thousands) Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses[1]	Sell Through[2]	Write-offs/ FX Effects	Balance at End of Period
Reserve for excess and obsolete inventory:					
Nine months Ended September 30, 2011	$ 2,135	$ 2,992	$ (896)	$ (1,254)	$ 2,977
Nine months Ended September 30, 2010	$ 1,750	$ 2,225	$ (736)	$ (1,206)	$ 2,033

(1) The additions charged to costs and expenses do not include inventory directly written-off that was scrapped during production totaling $0.2 million and $0.1 million for the three months ended September 30, 2011 and 2010, respectively, and $0.6 million and $0.4 million for the nine months ended September 30, 2011 and 2010, respectively. These amounts are production waste and are not included in management s reserve for excess and obsolete inventory.

(2) This column represents the gross book value of inventory items sold during the period that had been previously written down to zero net book value. Sell through is the result of differences between our judgment concerning the salability of inventory items during the excess and obsolete inventory review process and our subsequent experience.

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

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

Table of Contents

Significant Suppliers

We purchase integrated circuits, used principally in our wireless control products, from two main suppliers. For the three and nine months ended September 30, 2011, the total purchased from one of these suppliers was greater than 10% of our total inventory purchases. Our purchases from three component and finished good suppliers each amounted to greater than 10% of our total inventory purchases for the three and nine months ended September 30, 2010.

During the three months ended September 30, 2011 and 2010, the amounts purchased from the suppliers that composed greater than 10% of our total purchases were the following:

	Three Months Ended September 30,			
	2011		2010	
	$ (thousands)	% of Total Inventory Purchases	$ (thousands)	% of Total Inventory Purchases
Integrated circuit supplier	$ 8,069	10.3%	$ 8,536	18.5%
Component and finished good supplier A			8,319	18.0%
Component and finished good supplier B (1)			10,173	22.0%

During the nine months ended September 30, 2011 and 2010, the amounts purchased from the suppliers that composed greater than 10% of our total purchases were the following:

	Nine Months Ended September 30,			
	2011		2010	
	$ (thousands)	% of Total Inventory Purchases	$ (thousands)	% of Total Inventory Purchases
Integrated circuit supplier	$ 24,017	11.2%	$ 23,658	16.9%
Component and finished good supplier A			28,473	20.3%
Component and finished good supplier B (1)			28,763	20.5%

The total accounts payable to each of these suppliers on September 30, 2011 and December 31, 2010 were the following:

	September 30, 2011		December 31, 2010	
	$ (thousands)	% of Accounts Payable	$ (thousands)	% of Accounts Payable
Integrated circuit supplier	$ 1,656	2.6%	$ 3,731	