

UNIVERSAL ELECTRONICS INC
 Form 4
 November 16, 2015

FORM 4 UNITED STATES SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549

OMB APPROVAL
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
 Kopaskie Mark S

2. Issuer Name and Ticker or Trading Symbol
 UNIVERSAL ELECTRONICS INC [UEIC]

5. Relationship of Reporting Person(s) to Issuer
 (Check all applicable)

(Last) (First) (Middle)
 201 EAST SANDPOINTE, 8TH FLOOR
 (Street)

3. Date of Earliest Transaction (Month/Day/Year)
 11/13/2015

____ Director
 ____ Officer (give title below) Other (specify below) Strategic Advisor to the CEO

SANTA ANA, CA 92707-6708

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Ownership (Instr. 4)	
				(A) or (D)	Price			
				Code	V	Amount		
Common Stock	11/13/2015		M	950 ⁽¹⁾	A	\$ 0	2,005	D
Common Stock	11/13/2015		F	495 ⁽²⁾	D	\$ 46.675 ⁽³⁾	1,510	D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)
Restricted Stock Units	(4)	11/13/2015		M	950	(5) (5)	Common Stock 950	\$ 0

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Kopaskie Mark S 201 EAST SANDPOINTE 8TH FLOOR SANTA ANA, CA 92707-6708				Strategic Advisor to the CEO

Signatures

/s/Mark S. Kopaskie, by Richard A. Firehammer, Jr., pursuant to Limited Power of Attorney dated February 25, 2008 (attached) 11/16/2015

__Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Stock issued pursuant to Restricted Stock Grant approved by the Compensation Committee of the Board of Directors on February 4, 2013 and ratified by the Board of Directors on February 13-14, 2013.
- (2) This transaction represents a withholding of shares to cover taxes applicable to a vesting of RSUs also reported on this Form 4.
- (3) Price determined in accordance with the Restricted Stock Grant Stock approved by the Compensation Committee of the Board of Directors on February 4, 2013 and ratified by the Board of Directors on February 13-14, 2013.
- (4) Each restricted stock unit represents a contingent right to receive one share of UEI common stock.
- (5) These restricted stock units granted on February 13, 2013 vest over a 3 year ratable quarterly vesting period which began on May 13, 2013.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. sp;

SUPPLEMENTAL INFORMATION OF NON-CASH INVESTING AND FINANCING ACTIVITIES

On May 31, 2005 the Company completed the acquisition of the North American and central European CD and DVD manufacturing and distribution operations from Universal Music Group (Universal) (see Note 2).

Depreciation and amortization of intangible assets included in Net Cash Provided By (Used In) Operating Activities:

	Six months ended June 30,	
	2005	2004
	(In thousands)	
Depreciation included in cost of sales	\$1,036	\$123
Depreciation included in selling, general and administrative expense	342	171
Depreciation included in research and development expense	643	523
Amortization of intangible asset	566	

See Notes to Condensed Consolidated Financial Statements.

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Glenayre Technologies, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands except per share data)
(Unaudited)

1. Business and Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of Glenayre Technologies, Inc. and Subsidiaries (Glenayre or the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation for the periods presented have been included. All significant inter-company accounts and transactions have been eliminated in consolidation. Operating results for the three and six months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

The Company's Messaging Business is an established global provider of network-based messaging and communication systems and software that enable applications including voice messaging, multimedia messaging and other enhanced services. The Company's Messaging Business customers are communications service providers (CSPs) around the world, including wireless and fixed network carriers, as well as broadband and cable service providers. The Messaging Business's products enable CSPs to provide their customers with a variety of messaging and enhanced services such as voice mail, video mail, missed call notification, and text and picture messaging.

On May 31, 2005, the Company completed the acquisition of the North American and central European CD and DVD manufacturing and distribution operations from Universal Music Group. The EDC operation manufactures and distributes CD's, DVD's and other multimedia throughout the United States and Europe. The results of EDC are included in the Company's consolidated results since June 1, 2005. See Note 7 for information regarding ownership and voting interest.

2. Acquisition

On May 31, 2005 the Company completed the acquisition of the North American and central European CD and DVD manufacturing and distribution operations from Universal Music Group (Universal) for a purchase price of approximately \$122.2 million. The results of operations of the acquired operations have been included in the consolidated financial statements of the Company since the acquisition date. The acquisition was made through Entertainment Distribution Company, LLC (EDC), a newly formed division of Glenayre. The acquisition was a strategic opportunity for the Company to become an industry leader in providing pre-recorded products and distribution services to the entertainment industry. As part of the transaction, EDC entered into 10-year supply agreements with Universal under which it will become the exclusive manufacturer and distributor for Universal's CD and DVD requirements for North America and central Europe (see Note 6).

The North American CD and DVD manufacturing and distribution operations were acquired under an Asset Purchase Agreement. The central European CD and DVD manufacturing and distribution operations were acquired under a Share Purchase Agreement

The acquired assets include Universal's manufacturing and distribution operations in Hanover, Germany, its manufacturing operations in Grover, North Carolina, and its distribution operations in Fishers, Indiana, Reno, Nevada and Wilkes-Barre, Pennsylvania. EDC is leasing all of the facilities with the exception of the manufacturing facility in Grover, North Carolina, which it acquired from Universal.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Tabular amounts in thousands except per share data)
(Unaudited)

The purchase price paid at closing was \$82.6 million and is subject to post-closing adjustments that are not expected to be material. Of the purchase price paid at closing, \$30.5 million was for the U.S. operations, \$43.9 million (35.2 million) was for the central European operations, and the balance constituted transaction expenses. Additionally, under the terms of the supply contracts entered into as part of the transaction, EDC is obligated to pay to Universal future scheduled amounts with a net present value totaling approximately \$39.6 million. This long-term obligation is scheduled to be paid as follows: approximately \$5.6 million is payable on December 15, 2005, approximately \$8.0, \$13.4, \$13.8 and \$1.4 million is payable on each of May 31, 2006 through 2009, respectively, and approximately \$400,000 is payable on each of December 15, 2006 through 2014, respectively. Approximately 46% of the total obligation is payable in Euros.

EDC was capitalized with a \$35 million equity capital contribution from Glenayre. Following the closing, members of EDC management purchased \$772,000 of Glenayre s equity interest. In addition, certain profits interests were issued at closing to EDC management, Universal and the Company s financial advisor that will entitle these parties to up to thirty percent of EDC s profits, after Glenayre has received a return of its equity capital contribution and certain internal rate of return hurdles and other conditions have been met.

To fund the balance of the purchase price and provide for working capital needs, EDC obtained a senior secured credit facility with Wachovia Bank, National Association for an aggregate principal amount of \$56.5 million consisting of a term facility of \$46.5 million repayable over five years, and a revolving credit facility of \$10.0 million. Glenayre collateralized \$16.5 million of the credit facility by depositing cash in the same amount with the lender on the closing date.

The acquisition was accounted for as a purchase business combination in accordance with SFAS 141, *Business Combinations*. The purchase price is being allocated to the related tangible and identifiable intangible assets acquired and liabilities assumed based on their respective estimated fair values on the acquisition date. Identifiable intangible assets acquired include 10-year manufacturing and distribution services supply agreements between EDC and Universal Music Group (see Note 6). In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, the fair values of the identifiable intangible assets are being amortized over their estimated useful lives in a manner that best reflects the economic benefits derived from such assets. As of June 30, 2005, the purchase price is being allocated to the assets and liabilities based upon their estimated fair value at the date of the acquisition as noted below. Included in the assets purchased was \$38.4 million (30.8 million) of cash contributed by the seller. \$30.6 million (24.5 million) of the cash contributed was to fund certain net liabilities assumed by EDC as described below, and the remaining \$7.8 million (6.2 million) was to meet certain German regulatory requirements. The preliminary allocation was based on real estate appraisals obtained for land and buildings, on net book values for furniture and equipment, and on preliminary calculations of the present value of the cash flows of the supply agreements. These estimated values are subject to change upon the finalization of the valuations. Valuations for the profits interests granted to the investment banker, Universal and certain EDC management, and for management members right to force sell (put) their ownership to EDC, LLC or the Company have not been finalized, and therefore allocations for these items have not yet been assigned.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS **Continued**
(Tabular amounts in thousands except per share data)
(Unaudited)

(in millions)	Estimated Fair Value at Acquisition Date
Cash	38.4
Accounts Receivable	5.7
Other receivables	2.3
Inventories	10.1
Prepaid Assets	1.8
Property, Plant & Equipment	36.8
Long-term Receivable from Universal**	21.1
Deferred Financing Fees	1.0
Intangible Assets	68.6
Accounts Payable and Accrued Expenses	(27.9)
Long term Liabilities	(35.7)
 Total	 \$ 122.2

** Under the terms of the share purchase agreement relating to the acquisition of Universal's central European operations, the seller will reimburse EDC for \$51.7 million relating to the liabilities net of accounts receivable and other receivables assumed by EDC at the acquisition date.

Amounts not paid or received in future periods for these assumed liabilities and receivables, with the exception of the pension obligation, will be adjusted through the seller receivable. To fund the payment of these obligations, Universal contributed \$30.6 million (24.5 million) of cash at the time of the acquisition and will contribute the remaining \$21.1 million (16.9 million) as future obligations become due. \$24.1 million (19.3 million) of the cash contributed at the acquisition will be held in escrow until May 31, 2010 to fund various long-term pension and employee loan obligations, many of which extend beyond 2010.

3. Summary of Significant Accounting Policies

The following accounting policies relate to the messaging division only or both messaging and entertainment divisions. See Note 3a for new significant accounting policies related to operations acquired during the second quarter of 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Glenayre Technologies, Inc. Annual Report on Form 10-K, as amended, for the year ended December 31, 2004.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Consolidation

The consolidated financial statements include the accounts of Glenayre Technologies, Inc. and its majority-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. The consolidated accounts include 100% of assets and liabilities of its majority owned subsidiaries, and the ownership interests of minority investors are recorded as minority interest. The Company does not have any equity or cost method investments.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Tabular amounts in thousands except per share data)
(Unaudited)

Foreign Currency Translation

The accounts of foreign subsidiaries whose functional currency is the local currency have been translated into United States dollars using the current exchange rate in effect at the balance sheet date for assets and liabilities and average exchange rates during each reporting period for results of operations.

For international operations for which the functional currency is the United States dollar, transactions denominated in currencies other than the United States dollar are translated into United States dollars. The resulting gains or losses on currency translation are included in earnings and amounted to a gain of \$14,000 and loss of \$67,000 for the six months ended June 30, 2005 and 2004, respectively.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, trade accounts receivable, other current and long-term liabilities, and all derivative instruments approximates their respective fair values.

The use of derivative instruments is limited to non-trading purposes. The estimated fair values of derivative instruments are calculated based on market rates. These values represent the estimated amounts the Company would receive or pay to terminate agreements, taking into consideration current market rates and the current credit-worthiness of the counterparties. In accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, the derivatives held by the Company do not qualify as hedges and accordingly the Company records the gains and losses from the derivative instruments in earnings.

Deferred Financing Costs

Certain costs associated with debt financing are capitalized and included in other non-current assets on the consolidated balance sheet. These costs are amortized to interest expense over the term of the debt agreement. Amortization of deferred financing costs included in interest expense was approximately \$30,000 for the three and six months ended June 30, 2005.

Stock-Based Compensation

The Company grants stock options and issues shares under option plans and an employee stock purchase plan as described in Note 21(b). The Company accounts for stock option grants and shares sold under the employee stock purchase plan in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25); and, accordingly, records compensation expense for options granted and sales made at prices that are less than fair market value at the date of grant or sale. No compensation expense is recognized for options granted to employees with an exercise price equal to the fair value of the shares at the date of grant.

The following table compares the Company's results of continuing operations as reported to the pro forma results of continuing operations whereby stock-based compensation is computed under the fair value method required by Statement of Financial Accounting Standards No. 123. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense on a straight-line basis over the options' vesting period for each of the three and six month periods ended June 30.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS **Continued**
(Tabular amounts in thousands except per share data)
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	Three months Ended		Six months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Loss from continuing operations-as reported	\$(2,478)	\$(1,241)	\$ (698)	\$(7,142)
Pro forma stock option expense	(447)	(308)	(785)	(547)
Loss from continuing operations-pro forma	(2,925)	\$(1,549)	\$(1,483)	\$(7,689)
Income (loss) from continuing operations per common share as reported	\$ (0.04)	\$ (0.02)	\$ (0.01)	\$ (0.11)
Pro forma stock option expense	(0.01)		(0.01)	
Loss from continuing operations per common share pro forma	\$ (0.05)	\$ (0.02)	\$ (0.02)	\$ (0.11)
Loss from continuing operations, assuming dilution as reported	\$ (0.04)	\$ (0.02)	(0.01)	\$ (0.11)
Pro forma stock option expense	(0.01)		(0.01)	
Loss from continuing operations, assuming dilution pro forma	\$ (0.05)	\$ (0.02)	\$ (0.02)	\$ (0.11)

Impact of Recently Issued Accounting Standards

In response to the December 8, 2003 enactment of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act), the FASB issued Financial Staff Position (FSP) No. FAS 106-1. The Act introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Company elected to defer recognition of the effects of the Act on its post-retirement benefit plan until authoritative guidance on the accounting for the federal subsidy was issued in accordance with alternatives prescribed by FSP No. FAS 106-1 which was effective for the Company beginning with the year ended December 31, 2003. FSP No. FAS 106-1 was superseded by FSP No. FAS 106-2 on May 19, 2004 and is effective for the first interim or annual period beginning after June 15, 2004. The Company has two alternative methods of transition: retroactive application to the date of enactment or prospective application from the date of adoption. The Company is unable to determine whether benefits provided by its plan are actuarially equivalent to Medicare Part D and is unable to determine if the Company's plan qualifies for the subsidy under the Act. Consequently, the measure of the Accumulated Post-retirement Benefit Obligation (APBO) and net periodic post-retirement benefit cost do not reflect any amount associated with the subsidy. The regulations issued in January of 2005 indicated that the Centers for Medicare and Medicaid Services would provide further guidance on methods required to demonstrate actuarial equivalence.

In November of 2004, FASB issued Statement No. 151, *Inventory Costs*, an amendment of Accounting Research Bulletin No. 43, Chapter 4 (SFAS 151). The amendments made by SFAS 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The FASB's goal is to promote convergence of accounting standards internationally by adopting

language similar to that used in the International Accounting

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Standard 2, *Inventories* adopted by the International Accounting Standards Board (IASB). The Boards noted that the wording of the original standards were similar, but were concerned that the differences would lead to inconsistent application of those similar requirements. The guidance is effective for inventory costs incurred during the Company's year beginning January 1, 2006. The Company does not believe that the adoption of the new standard will have a material impact on its financial position.

The FASB issued FSP No. 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* to provide guidance under FASB issued Statement No. 109, *Accounting for Income Taxes* (SFAS 109) regarding the American Jobs Creation Act of 2004 (the Jobs Act) enacted on October 22, 2004. The Jobs Act provides for a special one-time dividends received deduction on the repatriation of certain foreign earnings to a US taxpayer. The Company has evaluated the effect of the Jobs Act on its plan for reinvestment and repatriation of foreign earnings and determined that it will not use the one-time deduction due to its net operation loss carryovers that are available to offset income from future dividend payments.

On December 16, 2004, the FASB issued Statement No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which is a revision of SFAS 123. SFAS 123R supersedes APB 25 and amends FASB Statement No. 95, *Statement of Cash Flows*. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

On April 14, 2005 the Securities and Exchange Commission announced the adoption of a new rule that amends the compliance dates for SFAS 123R. Under the new rule public companies will now be required to adopt SFAS 123R by their first fiscal year after June 15, 2005. The Company expects to adopt SFAS 123R on January 1, 2006.

SFAS 123R permits public companies to adopt its requirement using one of two methods:

1. A modified prospective method in which compensation cost is recognized beginning with the effective date
 - (a) based on the requirements of SFAS 123R all share-based payments granted after the effective date and
 - (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date.

2. A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company plans to adopt SFAS 123R using the modified-prospective method.

Both SFAS 123 and SFAS 123R require measurement of fair value using an option-pricing model. Although the Company currently uses the Black-Scholes model, the Company may determine that a lattice model provides a better estimate of fair value for its employee stock options. The Company has not determined which model it will use for new awards issued and for awards modified, repurchased or cancelled on or after the effective date, January 1, 2006. All awards granted prior to January 1, 2006 will maintain their grant-date value as calculated under SFAS 123. The future compensation cost for the portion of these awards that are unvested (the service period continues after date of adoption) will be based on their grant-date value adjusted for estimated forfeitures. The Company currently adjusts the pro forma expense for forfeitures only as they occur. The pro forma expense is allocated to the service period based on the accelerated attribution method, and all the awards have graded service vesting. This method will continue for compensation costs recognized for these awards granted prior to the effective date. Under the new standard, the Company may use a straight line or accelerated attribution method and is considering both alternatives for awards issued after the effective date.

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(Tabular amounts in thousands except per share data)
(Unaudited)

Reclassifications

Certain items in the prior year Condensed Consolidated Financial Statements have been reclassified to conform to the current presentation.

3a. Significant Accounting Policies (Entertainment Division only)

The following are significant accounting policies for the Entertainment division. See Note 3 for discussion of additional significant accounting policies.

Revenues

Revenue is comprised of product sales and service revenue earned from the fulfillment of services. Revenue from product sales is recognized upon delivery, and is recorded net of fixed credits for defective products.

For certain components, including printed materials, the Company may act as an agent for the customer and the customer reimburses the Company for any incurred costs plus a handling fee. The reimbursement for the costs is reported as a reduction to expense and the handling fees are recognized as revenue.

Services revenue is recognized as services are performed.

Cost of Sales, Selling General and Administrative Costs

Cost of sales includes direct and indirect manufacturing and distribution costs. Selling, General and Administrative costs include indirect overhead costs.

Shipping Costs

The Company does not incur shipping costs for its primary customer. See segment information in Note 23 for information regarding customers. For all other customers, shipping costs reimbursed by customers for invoice charges such as postage, freight packing and small order surcharges are recorded as revenue.

Inventories

Inventories are valued using first in first out and average cost methods, which approximate cost, and are recorded at the lower of cost or net realizable value.

Property, Plant and Equipment

Property, plant and equipment acquired in the purchase transaction are carried at fair value based on appraisals.

Depreciation is computed using the straight-line method based on the estimated remaining useful life of the assets.

Accounting for Internal Use Software

In accordance with AICPA Statement of Position No. 98-1 Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, direct internal and external costs incurred to develop computer software for internal use, including website development costs, are capitalized during the application development stage.

Application development stage costs generally include software configuration, coding, installation and testing. Costs of significant upgrades and enhancements that result in additional functionality are also capitalized. Costs incurred for maintenance and minor upgrades and enhancements are expensed as

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(Tabular amounts in thousands except per share data)
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incurred. Capitalized software costs are depreciated over the estimated useful life of the underlying project on a straight line basis, generally not exceeding three years.

4. Risks and Uncertainties***Concentrations of Credit Risk***

Financial instruments potentially subjecting the Company to concentrations of credit risk consist of temporary cash investments, currency swap and trade accounts receivable. The Company places its temporary cash investments and currency swap with large diversified entities with operations throughout the U.S., Germany and Canada. The Company is exposed to credit-related losses in the event of non-performance by the parties in these contracts. See Note 9.

The Company's customer base for the messaging division is comprised primarily of communications service providers resulting in a concentration of credit risk in the telecommunication industry. The Entertainment division's primary customer is Universal Music Group. See Note 2. The Company believes its reserves for bad debt are adequate considering its concentrations of credit risk.

Concentrations of Suppliers

EDC has a limited number of suppliers who are able to provide it with its raw materials. In Germany all polystyrene is purchased from a single supplier and all polycarbonate is purchased from a single supplier. In the United States all polycarbonate is purchased from a single supplier and substantially all printed material is purchased from two suppliers. These inputs are crucial to the production of CDs and DVDs and while there are alternative suppliers of these products, it would be disruptive to EDC's production if any of these companies were unable to deliver its product to EDC.

Workforce Subject to Collective Bargaining Agreements

In Germany, approximately 76% of EDC's workforce of 858 employees is unionized. However, collective bargaining agreements negotiated by the unions cover all non-exempt staff. Exempt staff is approximately 4% of the total. In the United States, approximately 30% of EDC's workforce of 913 employees is unionized and subject to collective bargaining agreements. None of these collective bargaining agreements expire within one year.

5. Restatement of Pro Forma Financial Information

Subsequent to filing its second quarter Form 10-Q, the Company identified corrections to the pro forma financial information that will be included in the Company's Form 8-K/A related to the acquisition of Universal Music Group's North American and central European manufacturing and distribution operations (UM&L) by the Company's EDC division. The following table is restated to include these adjustments. The unaudited financial information in the table below summarizes the combined results of operations of Glenayre and UM&L, on a pro forma basis, as though the companies had been combined as of the beginning of each of the periods presented. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition (see Note 2) had taken place at the beginning of each of the periods presented. The pro forma financial information for the three and six months ended June 30, 2005 includes the business combination accounting effect on historical UM&L revenues and costs, and acquisition costs reflected in Glenayre's and UM&L's historical statements of operations for periods prior to the acquisition.

The unaudited pro forma financial information for the three and six months ended June 30, 2004 and 2005 combines the historical results for Glenayre and UM&L for those periods.

Three Months Ended
June 30, 2005
Restatement As

(in thousands, except per share data)	As		
	Previously Reported	Adjustments	Restated
Total revenues	\$89,928	\$ 1,780	\$91,708
Net income (loss) from continuing operations	\$ (5,079)	\$ 1,774	\$ (3,305)
Net income (loss) from discontinued operations	\$ 388	\$	\$ 388
Net income (loss)	\$ (4,691)	\$ 1,774	\$ (2,917)
Basic net income (loss) per share	\$ (0.07)	\$ 0.03	\$ (0.04)
Diluted net income (loss) per share	\$ (0.07)	\$ 0.03	\$ (0.04)

(in thousands, except per share data)	Three Months Ended June 30, 2004		
	As Previously Reported	Restatement Adjustments	As Restated
Total revenues	\$65,014	\$	\$65,014
Net income (loss) from continuing operations	\$ 1,648	\$	\$ 1,648
Net income (loss) from discontinued operations	\$ 3,808	\$	\$ 3,808
Net income (loss)	\$ 5,456	\$	\$ 5,456
Basic net income (loss) per share	\$ 0.08	\$	\$ 0.08
Diluted net income (loss) per share	\$ 0.08	\$	\$ 0.08

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS **Continued**
(Tabular amounts in thousands except per share data)
(Unaudited)

	Six Months Ended June 30, 2005		
	As Previously Reported	Restatement Adjustments	As Restated
(in thousands, except per share data)			
Total revenues	\$ 172,557	\$ 4,166	\$ 176,723
Net income (loss) from continuing operations	\$ (6,741)	\$ 4,025	\$ (2,716)
Net income (loss) from discontinued operations	\$ 398	\$	\$ 398
Net income (loss)	\$ (6,343)	\$ 4,025	\$ (2,318)
Basic net income (loss) per share	\$ (0.09)	\$ 0.06	\$ (0.03)
Diluted net income (loss) per share	\$ (0.09)	\$ 0.06	\$ (0.03)

	Six Months Ended June 30, 2004		
	As Previously Reported	Restatement Adjustments	As Restated
(in thousands, except per share data)			
Total revenues	\$ 134,252	\$	\$ 134,252
Net income (loss) from continuing operations	\$ (7,671)	\$	\$ (7,671)
Net income (loss) from discontinued operations	\$ 5,493	\$	\$ 5,493
Net income (loss)	\$ (2,178)	\$	\$ (2,178)
Basic net income (loss) per share	\$ (0.03)	\$	\$ (0.03)
Diluted net income (loss) per share	\$ (0.03)	\$	\$ (0.03)

6. Intangible Assets

As a result of the EDC acquisition, certain long-term intangible assets were identified and recorded at their estimated fair value of \$67.5 million. Amortization expense was \$0.6 million for the three months and six months ended June 30, 2005.

These intangibles include the North American and central European CD and DVD manufacturing and distribution services agreements between EDC and Universal Music Group, which have 10-year terms and no minimum order requirements. The fair value assigned to the agreements was based on the present value of estimated future cash flows and is being amortized over the ten-year terms beginning in June 2005.

The Company has not yet completed the allocation of the purchase price for the EDC acquisition. Additional information could come to our attention that may require a revision to the preliminary allocation of the purchase price to the intangible assets.

7. EDC, LLC Agreement Profits Interests***EDC Profits Interests***

Upon the completion of the acquisition of the North American and central European CD and DVD manufacturing and distribution operations from Universal, EDC, a majority-owned subsidiary of the Company, issued profits interests to certain key employees, Universal and the Company's financial advisor, that will entitle these parties to up to 30% of EDC's profits after the Company has received a return of its equity capital contribution, and certain internal rate of return hurdles and other profitability conditions have been met. No payments were required from these parties to acquire the profits interests.

The estimated fair value of the profits interests at the date of grant will be independently appraised and will represent the probability-weighted present value of estimated future cash flows to those profits interests. The fair value of the profits interests granted to Universal and the financial advisor will be included in the acquisition costs of EDC. The fair value of the profits interests granted to key employees will result in compensation expense. The unearned compensation will be amortized over the vesting schedule one-third immediately upon grant and two-thirds ratably in each of the two years after grant. Included in EDC's results for the quarter ended June 30, 2005 is a charge of \$745,000 for the vested portion of the Profits Interests that were granted to key employees in June, 2005, and \$62,000 for the amortization of the unvested portion.

Minority interest

As part of the EDC acquisition described in Note 2, the Company sold 772 Class A units of EDC it owned (representing 2.2% of EDC's outstanding units) to two key employees at the fair value of \$1,000 per unit upon which such Class A Units were automatically converted into Class B units. The Class A and Class B Units carry equivalent economic rights. In addition, the Company issued profits interests to certain key employees, Universal and the Company's financial advisor, that will entitle these parties to up to 30% of EDC's profits after the Company has received a return

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of its equity capital contribution, and certain internal rate of return hurdles and other profitability conditions have been met. The profits interests do not carry any voting rights. The Company owns 97.8% of EDC's voting units. If EDC does not undergo an initial public offering prior to the earlier of (1) May 31, 2015 and (2) the date on or after May 31, 2013 on which the terms of all EDC's manufacturing and distribution agreements with Universal Music Group shall have been extended to a term ending on or after May 31, 2018, holders of Class B units and profits interests would have the right to sell their interests to the Company at fair value over a five-year period.

8. Restricted Cash

Long-term restricted cash at June 30, 2005 includes \$16.5 million of cash deposited with Wachovia to EDC's credit facility and \$23.3 million (€ 19.3 million Euros) being held in escrow to fund various pension and employee loan obligations of EDC's German operation and as part of the acquisition, one of Universal's subsidiaries deposited funds into an escrow account controlled by an Escrow Agreement restricting the disbursement of the funds. Universal and the Company participate in determining and approving disbursement. The earnings on the funds are paid to EDC monthly. On June 1, 2010, the restrictions expire for any remaining funds in escrow will be released to EDC. Included in the current portion of restricted cash is \$0.7 million of customer performance bonds, and letters of credit for leased space and a tax bond totaling \$0.1 million.

9. Financial Instruments

SFAS NO. 107, *Disclosures About Fair Value of Financial Instruments*, requires the disclosure of the fair value of all financial instruments. Financial instruments recorded at fair value include cash and cash equivalents, trade accounts receivable, other current and long-term liabilities and all derivative instruments.

Short-term Investments

All short-term investments mature in one year, or less. Short-term investments consist of highly liquid investments purchased with original maturities of greater than three months and less than twelve months when purchased. The following is a summary of held-to-maturity securities:

	Amortized Cost (Net Carrying Amount)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2005				
Obligation of U.S. government agencies	\$	\$	\$	\$
Other short-term investments				
	\$	\$	\$	\$
December 31, 2004				
Obligation of U.S. government agencies	\$ 5,127	\$	\$	\$ 5,127
Other short-term investments	7,053			7,053
	\$ 12,180	\$	\$	\$ 12,180

Currency Rate Swap

The Company entered into a cross currency rate swap agreement with a commercial bank on May 31, 2005. The Company's objective is to manage foreign currency exposure arising from its loan to its German subsidiary, acquired

in May of 2005, and is therefore for purposes other than trading. The loan is denominated in Euros and repayment is due on demand, or by May 31, 2010. According to Statement of Financial Accounting Standards No. 52, *Foreign Currency Translation*, the Company will report the foreign currency exchange gains or losses attributable to changes in the US\$/Euro exchange rate on the currency

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swap in earnings. In accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, the derivatives held by the Company do not qualify as hedges and accordingly the Company records the gains and losses from the derivative instruments in earnings. The swap matures in five years. The significant terms of the swap are as follows:

The Company will make quarterly payments, commencing August 31, 2005, based on a notional amount of 21,300,000 at the EUR LIBOR plus 3.12%;

The Company will receive quarterly payments, based on a notional amount of \$26.0 million at the USD LIBOR plus 3%; and

The Company will exchange with the counterparty the above notional amounts upon maturity of the swap agreement.

As of June 30, 2005, the swap is carried at its fair value of approximately \$262,000. The fair value of the currency rate swap was calculated based on mathematical approximations of market values derived from the commercial banks proprietary models as of a given date. These valuations are calculated on a mid-market basis and do not include a bid/offered spread that would be reflected in an actual price quotation. Therefore, the actual price quotations for unwinding these transactions would be different. These valuations and models rely on certain assumptions regarding past, present and future market conditions and are subject to change at any time. Valuations based on other models or assumptions may yield different results.

Long-Term Debt

The carrying amount of the commercial bank term loan, including the current portion, as of June 30, 2005 was approximately \$46.5 million. The carrying value of the payable to Universal is the net present value of future payments discounted using the Company's incremental borrowing rate when incurred. The fair value of the obligations shown in the table below was estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates. For additional details, see Note 18. Financial instruments at June 30, 2005 consisted of the following:

(in millions)	Carrying Amount	Fair Value
Commercial bank term loan	\$ 46.5	\$46.3
Payable to Universal	\$ 39.2	\$39.1

10. Accounts Receivable

Accounts receivable related to continuing operations consisted of:

	June 30, 2005	December 31, 2004
Trade receivables	\$40,648	\$ 8,139
Less: allowance for doubtful accounts	(676)	(444)
	\$39,972	\$ 7,695

The increase is primarily due to acquisition of EDC division (See Note 2).

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11. Inventories

Inventories, net of reserves, related to continuing operations consisted of:

	June 30,	December
	2005	31,
		2004
Raw materials	\$13,689	\$ 2,745
Work-in-process	1,435	586
Finished goods	3,464	2,832
	\$18,588	\$ 6,163

At June 30, 2005 and December 31, 2004, reserves were approximately \$3.2 million and \$2.7 million, respectively. In connection with the introduction of new products and services as well as in an effort to demonstrate its products to new and existing customers, the Messaging division, from time to time, delivers new product test systems for demonstration and test to customer third-party locations. The Company expenses the cost associated with new product test equipment upon shipment from the Company's facilities.

The increase in inventories is primarily due to the addition of the Entertainment division's inventories.

12. Property, Plant and Equipment and Impairment of Long-Lived Assets

Property, plant and equipment related to the Company's continuing operations at June 30, 2005 and December 31, 2004 consisted of:

	2005	2004
Land	\$ 1,676	\$ 676
Buildings and improvements	13,743	5,039
Equipment	34,062	5,988
	49,481	11,703
Less: Accumulated depreciation	(4,881)	(2,891)
	\$44,600	\$ 8,812

The increase in property, plant and equipment is primarily due to the addition of the Entertainment division.

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13. Estimated Warranty Costs

The Company generally warrants its Messaging products for one year after sale and a provision for estimated warranty costs is recorded at the time of sale. Factors affecting the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims and cost per claim. The following is a year to date summary of activity of the Company's continuing operations warranty obligation for 2005.

Balance at January 1, 2005	\$573
Provision for warranty obligations	46
Settlements of warranty obligations	(45)
Balance at March 31, 2005	\$574
Provision for warranty obligations	82
Settlements of warranty obligations	(74)
Balance at June 30, 2005	\$582

The Company also offers post-installation extended warranty and support services, known as Glenayre Care, for its Messaging products and services to customers. One year of Glenayre Care is generally included in the price of the Company's product. A portion of the product revenue equal to the fair value of the Glenayre Care is deferred at the time the sale of the product is recorded and recognized ratably over the support period. Once this service period expires, the Company's customers generally enter into Glenayre Care agreements of varying terms, which typically require payment in advance of the performance of the extended warranty service. Revenue derived from post-installation support services is recognized ratably over the contracted support period. Deferred revenue at June 30, 2005 related to product sales and to the sale of post-installation support services was approximately \$4.1 million of the \$11.0 million of deferred revenue.

The Company's EDC division provides its customers with a fixed credit as a compensation for defective products. Revenue for CD and DVD product are recorded net of the fixed credit. Actual expenses for defective products are recorded in cost of goods sold.

14. Business Restructuring of Continuing Operations

Effective January 1, 2003, the Company changed its method of accounting for restructuring activities to conform with Statement of Financial Accounting Standard No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

During the first quarter of 2005, the Company recorded net favorable adjustments to its original estimates associated with the Company's 2003 restructuring activities of \$12,000 primarily related to a reduction in accrued lease cancellation costs.

During the first quarter of 2004, the Company recorded a restructuring charge of \$58,000 for severance and outplacement services related to the reduction of the Company's workforce in the first and second quarter of 2003. The Company recorded net favorable adjustments to its original estimates associated with the Company's 2001 and 2003 restructuring activities of \$21,000 primarily related to a reduction in accrued severance benefits.

During the second quarter of 2004, the Company recorded a restructuring charge of \$88,000 for severance and outplacement services related to the reduction of the Company's workforce in April 2004. Additionally, the Company recorded net favorable adjustments to its original estimates associated with the Company's 2003 restructuring activities of \$13,000 primarily related to a reduction in accrued severance benefits.

The following is a summary of activity for the six months ended June 30, 2005 related to restructuring reserves:

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Messaging

	Severance and Benefits	Lease Cancellation and Other Exit Costs	Total
Balance at January 1, 2005	\$ 27	\$ 233	\$260
Expense accrued			
Credits and changes in estimates		(12)	(12)
Payments		(93)	(93)
Balance at March 31, 2005	\$ 27	\$ 128	\$155
Expense accrued			
Credits and changes in estimates	(16)	16	
Payments	(11)	(59)	(70)
Balance at June 30, 2005	\$ 0	\$ 85	\$ 85

15. Discontinued Operations

In May 2001, the Company began exiting its Wireless Messaging (Paging) business and refocusing all of its strategic efforts on the Enhanced Services Messaging business segment. As a result, the Paging segment was reported as a disposal of a segment of business in the second quarter 2001 in accordance with APB Opinion No. 30, *Reporting the Results of Operations*. Accordingly, the operating results of the Paging segment have been classified as a discontinued operation for all periods presented in the Company's Consolidated Statements of Operations. Additionally, the Company has reported all of the Paging segment assets at their estimated net realizable value in the Company's unaudited Condensed Consolidated Balance Sheet as of June 30, 2005. All business transactions related to the Paging segment, with the exception of existing contractual obligations, ceased in May 2002, the end of the transition period. Results for discontinued operations consist of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Gain on disposal before income taxes	\$428	\$3,822	\$491	\$4,201
Income Tax Benefit (Provision)	(40)	(14)	(93)	1,292
Gain on disposal of discontinued operations	388	3,808	398	5,493
Income from discontinued operations	\$388	\$3,808	\$398	\$5,493

In the first quarter of 2005, as a result of the Company's review of the estimated liabilities and future commitments related to the discontinued operations, a net decrease in the loss on disposal of \$63,000 was recorded. The Company recorded income of \$74,000 primarily due to a settlement received from Pilot Pacific Properties, Inc. and its

associated companies. This income was offset by the adjustments to the original estimates, related primarily to international office closures, of \$11,000.

In the second quarter of 2005, as a result of the Company's review of the estimated liabilities and future commitments related to the discontinued operations, a net decrease in the loss on disposal of \$428,000 was recorded. The Company recorded income of \$53,000 primarily due to a settlement and previously reserved accounts receivable receipts.

Additional reductions of \$375,000 were recorded primarily related to the release of a reserve for the Lynnview Ridge litigation (see Note 22).

In the first quarter of 2004, as a result of the Company's review of the estimated liabilities and future commitments related to the discontinued operations, a net decrease in the loss on disposal of \$379,000 was recorded. The adjustments to the original estimates related primarily to better than anticipated recoveries received from paging customers and to asset and inventory liquidations. In addition, the Company recorded a

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\$1.3 million reduction in its tax liability relating to the discontinued operations primarily due to receiving a favorable assessment for several prior tax years relating to one of the Company's foreign subsidiaries.

In the second quarter of 2004, as a result of the Company's review of the estimated liabilities and future commitments related to the discontinued operations, a net decrease in the loss on disposal of \$3.8 million was recorded. \$1.5 million of this decrease was a reduction to the Company's liability for legal and other costs associated with its former Vancouver facility as a result of entering into a favorable settlement agreement with Pilot Pacific Properties Inc. and its associated companies subsequent to June 30, 2004. The remaining \$2.3 million decrease was primarily due to i) reductions in the liability for costs related to performance obligations the Company has with its various paging customers as third parties have the capability to provide the necessary support, ii) the collection of previously reserved accounts receivable and iii) additional inventory liquidations.

16. Accrued Liabilities

Accrued liabilities at June 30, 2005 and December 31, 2004 consisted of:

	June 30, 2005	December 31, 2004
Accrued salaries and benefits	\$13,625	\$ 1,127
Accrued income taxes	5,215	4,993
Accrued royalty expense	1,624	236
Accrued transaction costs	3,007	
Accrued vacation	3,087	644
Current portion of long-term liabilities	2,379	
Other accruals	13,882	4,912
	\$42,819	\$11,912

The increase in accrued liabilities is primarily due to the EDC acquisition.

17. Other Liabilities

Other liabilities at June 30, 2005 and December 31, 2004 consisted of:

	June 30, 2005	December 31, 2004
Employee savings plan	\$ 3,942	\$
Employee long term service provision	3,974	
Early retirement provision	3,003	
Post-retirement benefit accrual	2,173	2,204
Deferred compensation	827	847
Deferred officers compensation	440	446
	\$14,359	\$ 3,497

The increase in other liabilities is primarily due to the obligations assumed in the EDC acquisition.

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18. Long-Term Debt

Long-term debt at June 30, 2005 and December 31, 2004 consisted of:

	June 30, 2005	December 31, 2004
Commercial Bank Term Loan	\$ 46,500	\$
Payable to Universal Principal Amount	45,273	
Less: Unamortized Discount	(6,059)	
 Total Debt	 85,714	
Less: Current Portion	(24,942)	
 Total Long-Term Debt	 \$ 60,772	 \$

In May 2005, to fund the balance of the purchase price and provide for working capital needs, EDC obtained a Senior Secured Credit Facility with Wachovia Bank, National Association for an aggregate principal amount of \$56.5 million consisting of a term facility of \$46.5 million, and a revolving credit facility of \$10.0 million. Glenayre collateralized \$16.5 million of the credit facility by depositing cash in the same amount with the lender on the closing date. Substantially all of EDC's assets, with a carrying value of \$156.5 million at June 30, 2005, are pledged as collateral to secure obligations under the Credit Facility. The term loan requires scheduled principal payments as shown in the table below.

The Credit Facility bears interest, at the Company's option, at either:

The higher of (i) the Prime Rate in effect and (ii) the Federal Funds Effective Rate in effect plus $\frac{1}{2}$ of 1% plus a 0.25% margin on the cash collateralized portion of the term loan and a 2% margin on the non-cash collateralized portion; or

The LIBOR rate plus a 1.25% margin on the cash collateralized portion of the term loan and a 3% margin on the non-cash collateralized portion.

The interest rate is determined periodically based on the length of the interest term selected by the Company on LIBOR loans. The weighted average interest rate of outstanding debt under the Credit Facility was 5.90% at June 30, 2005.

The Credit Facility contains usual and customary restrictive covenants that, among other things, place limitations on EDC's ability to (i) incur additional indebtedness; (ii) enter into mergers and acquisitions outside either the industries of either the Messaging Business or EDC; and (iii) asset dispositions. The Credit Facility also contains financial covenants relating to maximum consolidated leverage, minimum interest coverage and maximum senior secured leverage as defined therein.

The amount of the unused revolving credit facility was \$10.0 million at June 30, 2005. These funds may be drawn by giving proper notice as either i) an Alternate Base Rate Loan (ABRL) or ii) a LIBOR Rate Loan (LRL). The ABRL can be drawn in \$100,000 increments with a minimum aggregate amount of \$500,000. The ABRL interest rate for any day shall be a rate per annum equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus $\frac{1}{2}$ of 1% plus the Applicable Percentage. The LRL can be drawn in \$200,000 increments with a minimum aggregate amount of \$1,000,000. The LRL interest rate for any day shall be the London interbank offered rate per annum for the interest term selected by the company (rounded upward, if necessary

to the next higher 1/100th of 1%) plus the Applicable Percentage.

The commitment fee is 0.5% per annum on the average daily unused amount of the aggregate revolving committed amount. The fee for the three and six months ended June 30, 2005 was \$4,000.

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Additionally, under the terms of the manufacturing and distribution agreements entered into as part of the acquisition, EDC is obligated to pay Universal Music Group scheduled amounts with a net present value of approximately \$39.6 million at acquisition (see Note 2).

Total scheduled principal payments for all long-term debt, inclusive of unamortized discount, are as follows :

(in millions)	Commercial		
	Bank	Universal	Total
2005	\$ 5.0	\$ 5.5	\$10.5
2006	6.5	8.3	14.8
2007	8.0	13.6	21.6
2008	9.0	14.1	23.1
2009	9.0	1.8	10.8
Thereafter	9.0	2.0	11.0
Total	\$46.5	\$45.3	\$91.8

19. Income Taxes

The Company's consolidated income tax provision from continuing operations was different from the amount computed using the U.S. federal statutory income tax rate for the following reasons:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Income tax provision (benefit) U.S. statutory rate	\$(821)	\$(427)	\$(188)	\$(2,481)
State income tax (benefit) net of federal benefit and related valuation allowance	(133)	(92)	(172)	(316)
Increase (Decrease) in valuation allowance	565	507	(59)	2775
Foreign taxes, net of federal benefit and related valuation allowance	110	19	139	53
Profits interest awards	282		282	
Non-deductible amortization	99		99	
Other non deductibles	10	12	40	22
Minority interest from partnership	22		22	
Income tax provision	\$ 134	\$ 19	\$ 163	\$ 53

The Company accounts for income taxes under the liability method in accordance with SFAS 109. At June 30, 2005, the Company's net deferred tax asset was fully reserved by a valuation allowance. Pursuant to SFAS 109, a valuation allowance should be recognized to reduce the deferred tax asset to the amount that is more likely than not to be realized as offsets to the Company's future taxable income. The Company assessed whether the net deferred tax asset at June 30, 2005 was realizable and determined due to significant net operating losses and its inability to project future taxable income that the entire amount should be reserved. The foreign pretax loss from operations for the six months ended June 30, 2005 was \$475,000.

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20. Employee Benefit Plans, Postretirement Health Care Benefits*(a) Post Retirement Health Care Benefits*

Net postretirement benefit costs consist of the following components:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Service Cost	\$ 14	\$ 13	\$ 29	\$ 26
Interest cost on APBO	31	27	63	54
Amortization of prior service costs	(63)	(63)	(127)	(127)
Amortization of actuarial loss	23	15	45	30
	\$ 5	\$ (8)	\$ 10	\$ (17)

The unrecognized prior service cost decreases the postretirement benefit costs due to amortization of the plan amendment effective June 1, 2003 that reduced the number of participants by changing eligibility provisions. The Company reported in its financial statements for the year ended December 31, 2004, that it expects to contribute \$82,000 to its postretirement health care plan in 2005.

(b) Pension Plans

As a result of the acquisition described in Note 2, the Company assumed the obligations of four defined benefit plans. Employees and managing directors of the Entertainment division's operations in Germany participate in these various defined benefit pension plans. These benefits are based on pay, years of service and age. The plans are not funded and therefore have no plan assets. The Company intends to fund the pension benefits using funds in escrow included in restricted cash in the Condensed Consolidated Balance Sheet. See Note 8. All pension plans are accounted for pursuant to SFAS No 87, *Accounting for Pensions*.

The rates assumed in the actuarial calculations for the pension plans of the Company as of December 31, 2004 were as follows:

Discount rate	4.4%
Rate of compensation increase	3.5%
Rate of post-retirement pension increase	1.5%

As part of the purchase price allocation the Company is obtaining actuarial valuations as of May 31, 2005, but does not expect the valuations to be significantly different except for the recognition of the previously unrecognized net loss.

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The following table shows the collective actuarial results for the defined benefit pension plans of the Company.

	12/31/04
Change in Benefit Obligation:	
Benefit obligation, beginning of year	\$ 62,101
Service cost	769
Interest cost	2,431
Benefits paid	(2,309)
Net transfers	(45,097)
Actuarial gain (loss)	3,034
Amortization	
Benefit obligation, end of year	\$ 20,929
Funded Status:	
Funded status at end of year (a)	\$(20,929)
Unrecognized net (gain) loss (a)	4,154
Net amount recognized	\$(16,775)
Additional Information:	
Projected benefit obligation	\$ 20,929
Accumulated benefit obligation	17,916
Components of net periodic pension cost:	
Service cost	\$ 769
Interest cost	2,431
Net periodic pension cost	\$ 3,200

- (a) As a result of purchase accounting, the Company recorded both the projected benefit obligation and the previously unrecognized net loss of

approximately
 \$3.0 million
 estimated at
 May 31, 2005 in
 the purchase
 price of the
 EDC
 acquisition.

The following table shows the expected future benefits to be paid (in thousands).

2005	\$ 448
2006	343
2007	450
2008	642
2009	662
Succeeding 5 Years	\$5,139

Net periodic costs recognized in the period after acquisition include \$70,000 for service costs and \$76,000 for interest costs.

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21. Stockholders Equity*(a) Income (Loss) from Continuing Operations per Common Share*

The following table sets forth the computation of income (loss) from continuing operations per share:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Numerator:				
Net income (loss) from continuing operations	\$ (2,478)	\$ (1,241)	\$ (698)	\$ (7,142)
Denominator:				
Denominator for basic income from continuing operations per share weighted average shares	66,997	66,616	67,051	66,533
Effect of dilutive securities: Stock options *				
Denominator for diluted income (loss) from continuing operations per share	66,997	66,616	67,051	66,533
Income (loss) from continuing operations per weighted average common share	\$ (0.04)	\$ (0.02)	\$ (0.01)	\$ (0.11)
Income (loss) from continuing operations per common share-assuming dilution	\$ (0.04)	\$ (0.02)	\$ (0.01)	\$ (0.11)

* There were no shares of potential common stock included in the calculation of diluted loss per share for the three and six month periods ended June 30, 2004 and June 30 2005, as their effect would be anti-dilutive.

(b) Incentive Stock Plans

The Company maintains two stock option plans (the 1996 Plan and the 1991 Plan) and an employee stock purchase plan that were approved by the stockholders. These plans are administered by the Compensation and Plan Administration Committee of the Board of Directors (the Compensation Committee) and are utilized to promote the long-term financial interests and growth of the Company. The 1996 and 1991 Plans, as amended, authorize the grant

of up to 9,650,000 and 11,475,000 shares, respectively, of the Company's common stock for issuance in connection with the grant of stock options, stock appreciation rights, restricted stock and performance shares.

Options granted have an option price equal to the fair market value of the Company's common stock on the date of grant. Options under the plans expire no later than ten years from the grant date.

The Company has elected to follow APB 25 and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, *Accounting for Stock-Based Compensation*, (FAS 123) requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Pro forma information regarding net income and earnings per share is required by FAS 123, which also requires that the information be determined as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of that statement. See Note 1, *Stock-Based Compensation* for these disclosures.

Table of Contents**Glenayre Technologies, Inc. and Subsidiaries**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Tabular amounts in thousands except per share data)
(Unaudited)

The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	June 30, 2005	June 30, 2004
Expected Life in Years	1 to 4	1 to 4
Risk Free Interest Rate	3.4% to 4.0%	2.1% to 4.7%
Volatility	0.69	0.77
Dividend Yield		

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

22. Commitments and Contingencies***Litigation***

The Entertainment division is not party to any material litigation. In connection with the licensing of the Company's software products related to the Messaging division, the Company's standard purchase and license agreements typically require the Company to defend and indemnify its customers against claims that the Company's licensed programs infringe or misappropriate the intellectual property rights of third parties. Under these agreements, the Company agrees to indemnify, defend and hold harmless the customer in connection with patent, copyright, trade secret or mask works infringement claims made by third parties with respect to the customer's authorized use of our licensed programs. The indemnity provisions generally provide, subject to various exclusions and conditions, for our control of defense and settlement and cover costs and damages actually finally awarded against the customer. The Company retains the right in its discretion or after issuance of a final adverse judgment to obtain a license for the licensed program in question from the third party, to modify the licensed program so it is no longer infringing, or to terminate the customer's license for the licensed program with a pro-rata refund of license fees paid based on a 5-year straight-line amortization schedule.

Phillip Jackson Beginning in late 2001, Phillip Jackson (Jackson) filed lawsuits against several of the Company's customers claiming that products sold by the Company and used by these customers infringed a patent held by Jackson. The Company agreed to indemnify its customers for the claims in these lawsuits and assumed primary responsibility for defending the claims with respect to the Company's products. Following completion of the trial and post-trial reduction of damages by the court, the court entered judgment in the total amount of approximately \$2.7 million, plus interest and costs. During the first quarter of 2004, the Company recorded a charge consisting of \$2.7 million of royalty fee expense (recorded in cost of revenues) and \$200,000 of interest expense, and recorded a reduction of the estimated liability for accrued legal cost associated with this case of \$770,000. The Company paid the \$2.7 million award plus interest and costs during the second quarter of 2004.

On May 14, 2004, Jackson filed a motion with the district (trial) court to set trial on remaining issues of contributory infringement and inducement to infringe Jackson's patent. On June 29, 2004, the trial court ruled that there were no issues remaining between the parties and denied Jackson's motion to set trial on remaining issues. Jackson is currently appealing this ruling and the appeal was argued before the United States Court of Appeals for the Federal Circuit on March 11, 2005. As of August 8, 2005, the appellate court has not yet ruled on the appeal. The Company believes that it is unlikely that the appellate court will reverse the trial court's ruling of June 29, 2004.

Lynnview Ridge, Alberta In November 2002 and April 2003, a total of twenty lawsuits seeking approximately \$22.3 million (Canadian) in damages were filed in the Court of Queen's Bench, Judicial Centre of Calgary, in Alberta, Canada, against the Company and several other defendants, including Imperial Oil, a major Canadian petroleum company. These lawsuits assert that the defendants, including the

Table of Contents**Glenayre Technologies, Inc. and Subsidiaries**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Tabular amounts in thousands except per share data)
(Unaudited)

Company, are liable for negligence, nuisance, and negligent misrepresentation arising out of the development and sale of homes located in a Calgary, Canada residential development, Lynnview Ridge, that was jointly developed in the early 1980 s by a corporate predecessor of the Company and a wholly owned subsidiary of Imperial Oil.

The Company understands that the land on which some of this residential development was located at one time contained a petroleum storage tank farm and is adjacent to land on which Imperial Oil operated a refinery for many years. In June 2001, Alberta Environment, a department of the Government of Alberta, issued an Environmental Protection Order requiring Imperial Oil to remediate significant petroleum-based contamination discovered on Lynnview Ridge. In July 2002, following an appeal to the Environmental Appeal Board, the Alberta Minister of the Environment issued a Ministerial Order confirming this Environmental Protection Order. Imperial Oil initiated a judicial proceeding to reverse this Ministerial Order, which was unsuccessful. The Company is not a party to these proceedings. The Company understands that Imperial Oil has purchased from the homeowners 137 of the 160 homes located in the Lynnview Ridge development. To date, the Company has conducted preliminary investigations and some limited discovery regarding these lawsuits.

In March 2004, one of the lawsuits was discontinued by one of the plaintiffs. In April 2004, the Company made an application for grant of summary judgment in one action that was chosen to be a representative case for this matter, but the plaintiffs in this representative case discontinued their lawsuit in October 2004. In April 2005, the Company was notified that Imperial Oil had filed a notice with the Court that it has settled nine of the lawsuits involving approximately \$11.8 million (Canadian) in total damages and that the releases to be made by the plaintiffs in connection with those settlements will include the Company. Since that time consent judgments and dismissals covering the Company have been entered in eight of the remaining nine lawsuits, which had been requesting approximately \$6.5 million (Canadian) in total damages. The Company has paid no damages with respect to any of the foregoing settlements or judgments. The one remaining lawsuit seeks approximately \$145,000 (Canadian) in total damages. A provision for legal fees associated with this matter of \$12,000 is included in Accrued Liabilities, discontinued operations of the Company s June 30, 2005 unaudited Condensed Consolidated Balance Sheet.

In addition to the legal proceedings discussed above, the Company is from time to time, involved in various disputes and legal actions related to its business operations. While no assurance can be given regarding the outcome of the matters discussed above, based on information currently available, the Company believes that the resolution of these matters will not have a material adverse effect on the financial position or results of future operations of the Company. However, because of the nature and inherent uncertainties of litigation, should the outcome of these actions be unfavorable, the Company s business, financial condition, results of operations and cash flows could be materially adversely affected.

Table of Contents**Glenayre Technologies, Inc. and Subsidiaries**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued
(Tabular amounts in thousands except per share data)
(Unaudited)

Operating Lease Commitments

The Company leases facilities and various equipment under non-cancelable operating leases. Including the operating leases from the acquisition, future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year), net of sublease income related to its continuing operations for calendar years subsequent to June 30, 2005 are as follows:

2005	\$ 4,028
2006	7,470
2007	6,546
2008	6,517
2009	6,682
Thereafter	27,124
Subtotal	58,367
Sublease income	(76)
Total	\$58,291

Future minimum lease payments under non-cancelable operating leases (with minimum or remaining lease terms in excess of one year) related to discontinued operations are included in Accrued Liabilities – discontinued operations on the Company's Consolidated Balance Sheet and excluded from the above schedule. Accrued restructuring charges for leases of \$156,000 and related sublease income of \$76,000 are included in the above schedule and also in the Accrued Liabilities on the Company's Consolidated Balance Sheet. The office and manufacturing facility leases include provisions for rent escalation of 5% or less and hold over options to continue occupancy without renewal. Contingent rentals are estimated based on provisions in the lease and historical trends.

Letters of Credit and Cash Collateral

Restricted cash in the non-current asset section of the Condensed Consolidated Balance Sheet totaling \$16.5 million represents collateral for the credit facility described in Note 18. A portion of restricted cash in the current asset section of the Condensed Consolidated Balance Sheet, consists of \$0.7 million customer performance bonds, and \$0.1 million for letters of credit for leased space and a tax bond. None of these letters of credit were drawn upon as of June 30, 2005.

Minority Shareholder Put Options

The Entertainment Distribution Company, LLC (EDC, LLC) limited liability company agreement grants minority members put option rights such that they can require EDC or Glenayre Electronics, Inc. to purchase the minority member interest in EDC, LLC. The put options, collectively representing a 30% ownership interest in EDC, LLC, after Glenayre has received a return of its equity capital contribution and certain internal rate of return hurdles and other profitability conditions have been met, can be exercised during a 5 year period beginning on the Put Trigger Date (as defined in the agreement) in the event EDC shall not have consummated an initial public offering prior to the Put Trigger Date. The Put Trigger Date is the earlier of May 31, 2015 and the date on or after May 31, 2013 on which the terms of all EDC's manufacturing and distributions agreements with Universal Music Group, are extended to a term ending on or after May 31, 2018. The purchase price for any member interest purchased as a result of the put option is the Fair Market Value on the date of the put notice. The Company has not completed the allocation of purchase price relating to the EDC transaction and has not included an allocation for the minority shareholder put options in its preliminary purchase price allocation.

Employee Contracts

Certain executives of the Company have contracts that generally provide benefits in the event of termination or involuntary termination for "good reason" accompanied by a change in control of Glenayre or certain subsidiaries.

Table of Contents**Glenayre Technologies, Inc. and Subsidiaries**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS **Continued**
(Tabular amounts in thousands except per share data)
(Unaudited)

Other Commitments

Western Multiplex Corporation merged with Proxim Corporation in March 2002. The Company is contingently liable for Proxim's building lease payments through September 2006. The maximum contingent liability as of June 30, 2005 for this obligation is approximately \$633,000.

23. Segment Reporting

The Company has two reportable segments: Glenayre Messaging and Entertainment Distribution Company. The Glenayre Messaging segment consists of the Company's software development operation, producing network-based messaging and communication systems and software that enable applications including voice messaging, multimedia messaging and other enhanced services. The Entertainment Distribution Company segment consists of the Company's CD and DVD manufacturing and distribution operations. The Company's segments operate in different industries and are managed separately.

Business Segments

	Three Months Ended June 30,					
	Consolidated		Entertainment		Messaging	
	2005	2004	2005	2004	2005	2004
Revenues	\$ 42,754	\$ 12,226	\$ 20,007	\$	\$ 22,747	\$ 12,226
Gross margin	15,230	7,240	2,729		12,501	7,240
Income (loss) from operations before income taxes	(2,344)	(1,222)	(4,015)		1,671	(1,222)
Depreciation and amortization	2,115	419	1,608		507	419
Interest income	571	249	52		519	249
Interest expense	505	5	505			5
Income tax expense (benefit)	134	19			134	19
Total assets	\$ 297,337	\$ 121,282	\$ 196,103	\$	\$ 101,234	\$ 121,282

	Six Months Ended June 30,					
	Consolidated		Entertainment		Messaging	
	2005	2004	2005	2004	2005	2004
Revenues	\$ 60,676	\$ 22,420	\$ 20,007	\$	\$ 40,669	\$ 22,420
Gross margin	26,530	9,371	2,729		23,801	9,371
Income (loss) from operations before income taxes	(535)	(7,089)	(4,015)		3,480	(7,089)
Depreciation and amortization	2,587	816	1,608		979	816
Interest income	1,101	524	52		1,049	524
Interest expense	512	214	505		7	214
Income tax expense (benefit)	163	53			163	53
Total assets	\$ 297,337	\$ 121,282	\$ 196,103	\$	\$ 101,234	\$ 121,282

Table of Contents**Glenayre Technologies, Inc. and Subsidiaries**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS **Continued**
(Tabular amounts in thousands except per share data)
(Unaudited)

Geographic Area

Geographic Data (In thousands)	Consolidated		Three Months Ended June 30,				Other International	
			United States		Germany			
	2005	2004	2005	2004	2005	2004	2005	2004
Revenues	\$ 42,754	\$ 12,226	\$ 22,831	\$ 9,798	\$ 9,480	\$	\$ 10,443	\$ 2,428
Long-lived assets	111,561	8,744	62,831	8,721	48,605		125	23

Geographic Data (In thousands)	Consolidated		Six Months Ended June 30,				Other International	
			United States		Germany			
	2005	2004	2005	2004	2005	2004	2005	2004
Revenues	\$ 60,676	\$ 22,420	\$ 38,835	\$ 18,324	\$ 9,480	\$	\$ 12,361	\$ 4,096
Long-lived assets	111,561	8,744	62,831	8,721	48,605		125	23

Long-lived assets include property, plant and equipment and intangible assets.

Customers accounting for in excess of 10% of total revenues for the three months ended June 30, 2005 are Universal (\$18.9 million) and MTN (\$6.8 million) and for the six months ended June 30, 2005 Universal (\$18.9 million), Nextel (\$8.4 million), Alltel (\$7.9 million) and MTN (\$6.8 million).

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ITEM 6. EXHIBITS

The exhibits listed in the accompanying Exhibit Index are hereby incorporated by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Glenayre Technologies, Inc.

(Registrant)

/s/ Debra Ziola

Debra Ziola
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: August 15, 2005

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**GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES
EXHIBIT INDEX**

Exhibit Number	Description
2.1	Asset Purchase Agreement Dated May 9, 2005, by and Among Entertainment Distribution Company (USA), LLC, UMG Manufacturing & Logistics, Inc. and Universal Music & Video Distribution Corp. was filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed May 10, 2005 and is incorporated herein by reference.
2.2	Share Purchase Agreement dated May 9, 2005, by and among Blitz 05-107 GmbH (in future named: Entertainment Distribution GmbH), Universal Manufacturing & Logistics GmbH and Universal Music GmbH was filed as Exhibit 2.2 to the Registrant's Current Report on Form 8-K filed May 10, 2005 and is incorporated herein by reference.
3.1	Composite Certificate of Incorporation of Glenayre reflecting the Certificate of Amendment filed December 8, 1995 was filed as Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995 and is incorporated herein by reference.
3.2	Restated by-laws of Glenayre effective June 7, 1990, as amended September 21, 1994 was filed as Exhibit 3.5 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994 and is incorporated herein by reference.
10.1	Credit Agreement dated May 31, 2005 among Entertainment Distribution Company, LLC, Entertainment Distribution Company (USA), LLC, Wachovia Bank, National Association and Glenayre Electronics, Inc. was filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed June 3, 2005 and is incorporated herein by reference.
10.2	Cash Collateral Agreement dated May 31, 2005 between Wachovia Bank, National Association and Glenayre Electronics, Inc. was filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed June 3, 2005 and is incorporated herein by reference.
10.3	Limited Liability Company Agreement of Entertainment Distribution Company, LLC was filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed June 3, 2005 and is incorporated herein by reference.
10.4	Employment Agreement dated May 9, 2005 between Glenayre Electronics, Inc. and James Caparro was filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed June 3, 2005 and is incorporated herein by reference. *
10.5	Employment Agreement dated May 9, 2005 between Glenayre Electronics, Inc. and Thomas Costabile was filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed June 3, 2005 and is incorporated herein by reference. *
10.6	Letter agreement among Glenayre Electronics, Inc., James Caparro and Thomas Costabile dated May 31, 2005 was filed as Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed June 3, 2005 and is incorporated herein by reference. *

- 10.7 U.S. CD Manufacturing and Related Services Agreement dated as of May 31, 2005 between Entertainment Distribution Company (USA), LLC and UMG Recordings, Inc. was filed as Exhibit 10.7 to the Registrant's Current Report on Form 8-K filed June 3, 2005 and is incorporated herein by reference. **

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- 10.8 U.S. HDFD Manufacturing and Related Services Agreement dated as of May 31, 2005 between Entertainment Distribution Company (USA), LLC and UMG Recordings, Inc. was filed as Exhibit 10.8 to the Registrant's Current Report on Form 8-K filed June 3, 2005 and is incorporated herein by reference. **
- 10.9 Manufacturing and Related Services Agreement dated as of May 31, 2005 between Universal Manufacturing & Logistics GmbH and Universal International Music, B.V. was filed as Exhibit 10.9 to the Registrant's Current Report on Form 8-K filed June 3, 2005 and is incorporated herein by reference. **
- 10.10 U.S. Distribution and Related Services Agreement dated as of May 31, 2005 between Entertainment Distribution Company (USA), LLC and UMG Recordings, Inc. was filed as Exhibit 10.10 to the Registrant's Current Report on Form 8-K filed June 3, 2005 and is incorporated herein by reference. **
- 10.11 Distribution and Related Services Agreement dated as of May 31, 2005 between Universal Manufacturing & Logistics GmbH and Universal International Music, B.V. was filed as Exhibit 10.11 to the Registrant's Current Report on Form 8-K filed June 3, 2005 and is incorporated herein by reference. **
- 15.1 Letter regarding unaudited financial information.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management Contract

** Portions of this document are confidential and have been omitted and filed separately with the Securities and Exchange Commission in connection with a request for confidential treatment of such omitted

material in
accordance with
Rule 24b-2
under the
Securities and
Exchange Act
of 1934.

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n style="font-family:Arial Narrow;font-size:10pt;">11.9

\$
12.0

Exercise of stock options

0.1

—

Repurchase and retirement of common stock
(0.1
)

—

Balance at beginning of year and end of period
\$
11.9

\$
12.0

Additional Paid-in Capital

Balance at beginning of year
\$
139.3

\$
142.7

Cumulative effect of accounting change
(0.3

)

—

Repurchase and retirement of common stock

(17.2

)

(12.0

)

Exercise of stock options

4.7

5.5

Stock-based compensation expense

1.1

4.4

Excess tax benefit for stock-based compensation

—

(0.3

)

Restricted stock units released

1.7

1.9

Employee stock purchase plan issuances

1.1

1.1

Balance at end of period

\$

130.4

\$

143.3

Retained Earnings

Balance at beginning of year

\$

519.5

\$

435.3

Cumulative effect of accounting change

0.1

—

Net income attributable to Herman Miller, Inc.

66.5

68.0

Dividends declared on common stock (per share - 2018: \$0.36; 2017; \$0.34)

(21.6

)

(20.4

)

Redeemable noncontrolling interests valuation adjustment

(0.1

)

0.3

Balance at end of period

\$

564.4

\$

483.2

Accumulated Other Comprehensive Loss

Balance at beginning of year

\$

(82.2

)

\$

(64.5
)
Other comprehensive income (loss)
7.1

(4.6
)
Balance at end of period
\$
(75.1
)

\$
(69.1
)
Key Executive Deferred Compensation

Balance at beginning of year and end of period
\$
(1.0
)

\$
(1.1
)
Herman Miller, Inc. Stockholders' Equity

\$
630.6

\$
568.3

Noncontrolling Interests

Balance at beginning of year and end of period
\$
0.2

\$
0.3

Total Stockholders' Equity
\$
630.8

\$
568.6

See accompanying notes to condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements
Three and Six Months Ended December 2, 2017
(in millions)

1. Basis of Presentation

The condensed consolidated financial statements have been prepared by Herman Miller, Inc. ("the company") in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. Management believes the disclosures made in this document are adequate with respect to interim reporting requirements.

The accompanying unaudited condensed consolidated financial statements, taken as a whole, contain all adjustments that are of a normal recurring nature necessary to present fairly the financial position of the company as of December 2, 2017. Operating results for the three and six months ended December 2, 2017, are not necessarily indicative of the results that may be expected for the year ending June 2, 2018. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the company's annual report on Form 10-K for the year ended June 3, 2017.

The company's fiscal year ends on the Saturday closest to May 31. Fiscal 2018, the year ending June 2, 2018, and fiscal 2017, the year ended June 3, 2017, contain 52 and 53 weeks, respectively. The six months ended December 2, 2017 and December 3, 2016 contained 26 and 27 weeks, respectively.

2. Recently Issued Accounting Standards

Recently Adopted Accounting Standards

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
Improvements to Employee Share-Based Payment Accounting	Under the new guidance, all excess tax benefits/deficiencies should be recognized as income tax expense/benefit, entities may elect how to account for forfeitures and cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity on the cash flow statement.	June 4, 2017	The company adopted the accounting standard in the first quarter of fiscal 2018. As a result, the company elected to change its policy from estimating forfeitures to recognizing forfeitures when they occur, which resulted in an increase in Retained earnings of \$0.2 million, a decrease in Additional paid in capital of \$0.3 million and an increase in Other noncurrent assets of \$0.1 million in the Condensed Consolidated Balance Sheets. The other impacts resulting from adoption did not have a material impact on the company's Financial Statements.

Recently Issued Accounting Standards Not Yet Adopted

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
-----------------	--------------------	-----------------------	--

Revenue
from
Contracts
with
Customers

The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is designed to create greater comparability for financial statement users across industries and jurisdictions and also requires enhanced disclosures. The standard allows for two adoption methods, a full retrospective or modified retrospective approach.

June 3,
2018

The company has completed a preliminary review of the impact of the new standard and expects changes in the identification of performance obligations around product and service revenue. For commercial contracts in which the company sells directly to end customers, in most cases, the company currently delays revenue recognition until the products are shipped and installed and records third-party installation and certain other fees net. However, under the new standard, in most cases, the company will recognize product revenue when title and risk of loss have transferred and will recognize service revenue upon the completion of services. Additionally, the company will record certain product pricing elements related to its direct customer sales within revenue and Cost of Sales rather than net within revenue as is current practice. The company has determined that these elements relate to the product performance obligation which the company is considered to control under the new standard. The company is also in the process of implementing changes to its business processes, systems and controls to support recognition and disclosure under the new standard. The company expects to adopt the standard in fiscal 2019 using the modified retrospective approach.

Recently Issued Accounting Standards Not Yet Adopted (Continued)

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities	The standard provides guidance for the measurement, presentation and disclosure of financial assets and liabilities. The standard requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any change in fair value in net income. The standard does not permit early adoption and at adoption a cumulative-effect adjustment to beginning retained earnings should be recorded.	June 3, 2018	The company is currently evaluating the impact of adopting this guidance.
Leases	Under the updated standard a lessee's rights and obligations under most leases, including existing and new arrangements, would be recognized as assets and liabilities, respectively, on the balance sheet. The standard must be adopted under a modified retrospective approach and early adoption is permitted.	June 2, 2019	The standard is expected to have a significant impact on our Consolidated Financial Statements; however, the company is currently evaluating the impact.

3. Acquisitions and Divestitures***Contract Furniture Dealerships***

On July 31, 2017, the company completed the sale of a wholly-owned contract furniture dealership in Vancouver, Canada for initial cash consideration of \$2.0 million. A pre-tax gain of \$1.1 million was recognized as a result of the sale within the caption Selling, general and administrative within the Condensed Consolidated Statements of Comprehensive Income.

On January 1, 2017, the company completed the sale of a wholly-owned contract furniture dealership in Philadelphia, Pennsylvania in exchange for a \$3.0 million note receivable. A pre-tax gain of \$0.7 million was recognized as a result of the sale within the caption Selling, general and administrative within the Condensed Consolidated Statements of Comprehensive Income. The note receivable was deemed to be a variable interest in a variable interest entity. The carrying value of the note was \$2.3 million and \$1.4 million as of December 2, 2017 and June 3, 2017, respectively, and represents the company's maximum exposure to loss. The company is not deemed to be the primary beneficiary of the variable interest entity as the buyers of the dealership control the activities that most significantly impact the entity's economic performance, including sales, marketing and operations.

Naughtone Holdings Limited

On June 3, 2016, the company acquired a 50 percent noncontrolling equity interest in Naughtone Holdings Limited ("Naughtone"), a leader in soft seating products, stools, occasional and meeting tables, for \$12.4

million in cash consideration. In the second quarter of fiscal 2017, the company paid additional purchase consideration of approximately \$0.6 million as part of the final net equity adjustment.

4. Inventories, net

(In millions)	December 2, 2017	June 3, 2017
Finished goods	\$ 137.0	\$119.0
Raw materials	35.2	33.4
Total	\$ 172.2	\$152.4

Inventories are valued at the lower of cost or market and include material, labor, and overhead. The inventories at our West Michigan manufacturing operations are valued using the last-in, first-out (LIFO) method, whereas inventories of certain other operations are valued using the first-in, first-out (FIFO) method.

5. Goodwill and Indefinite-lived Intangibles

Goodwill and other indefinite-lived intangible assets included in the Condensed Consolidated Balance Sheets consisted of the following as of December 2, 2017 and June 3, 2017:

(In millions)	Goodwill	Indefinite-lived and Intangible Assets	Total Goodwill
			Indefinite-lived Intangible Assets
June 3, 2017	\$304.5	\$ 78.1	\$ 382.6
Foreign currency translation adjustments	0.1	—	0.1
Sale of owned contract furniture dealership	(0.3)	—	(0.3)
December 2, 2017	\$304.3	\$ 78.1	\$ 382.4

6. Employee Benefit Plans

The following table summarizes the components of net periodic benefit costs for the company's International defined benefit pension plan for the three and six months ended:

(In millions)	Three Months Ended		Six Months Ended	
	December 3, 2017		December 3, 2016	
	2017	2016	2017	2016
Interest cost	\$0.8	\$ 0.8	\$1.6	\$ 1.5
Expected return on plan assets	(1.8)	(1.3)	(3.5)	(2.5)
Net amortization loss	1.3	0.6	2.6	1.2
Net periodic benefit cost	\$0.3	\$ 0.1	\$0.7	\$ 0.2

The company made a voluntary contribution of \$12.0 million to its International defined benefit pension plan in the six month period ended December 2, 2017.

7. Earnings Per Share

The following table reconciles the numerators and denominators used in the calculations of basic and diluted earnings per share (EPS) for the three and six months ended:

	Three Months Ended		Six Months Ended	
	December 3, 2017		December 3, 2016	
	2017	2016	2017	2016
<u>Numerators:</u>				
Numerator for both basic and diluted EPS, net earnings attributable to Herman Miller, Inc. - in millions	\$33.5	\$ 31.7	\$66.5	\$ 68.0

Denominators:

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Denominator for basic EPS, weighted-average common shares outstanding	59,747,592	59,753,527
Potentially dilutive shares resulting from stock plans	524,275	543,457
Denominator for diluted EPS	60,272,867	60,297,984
Antidilutive equity awards not included in weighted-average common shares - diluted	423,678	356,136

During fiscal 2017, the company had certain share-based payment awards that met the definition of participating securities. The company evaluated the impact on EPS of all participating securities under the two-class method, which had no impact on diluted EPS.

8. Stock-Based Compensation

The following table summarizes the stock-based compensation expense and related income tax effect for the three and six months ended:

(In millions)	Three Months Ended		Six Months Ended	
	December 2, 2017	December 3, 2016	December 2, 2017	December 3, 2016
Stock-based compensation expense				