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

FORM 10-Q

(mark one)

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

For the Quarterly Period ended June 30, 2006

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

For the transition period from __________ to __________.

Commission File Number: 0-21044

UNIVERSAL ELECTRONICS INC.
(Exact name of Registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**33-0204817** **(I.R.S. Employer Identification No.)**
6101 Gateway Drive **Cypress, California** **(Address of principal executive offices)**	**90630** **(Zip Code)**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer o Accelerated filer ☑ Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 13,845,845 shares of Common Stock, par value $.01 per share, of the registrant were outstanding on August 8, 2006.

UNIVERSAL ELECTRONICS INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. Consolidated Financial Statements

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

	June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 58,776	$ 43,641
Accounts receivable, net	42,397	41,861
Inventories, net	29,146	26,708
Prepaid expenses and other current assets	3,157	3,841
Income tax receivable	903	903
Deferred income taxes	2,993	2,971
Total current assets	137,372	119,925
Equipment, furniture and fixtures, net	5,389	4,352
Goodwill	10,578	10,431
Intangible assets, net	5,924	6,007
Other assets	714	403
Deferred income taxes	5,565	5,201
Total assets	$ 165,542	$ 146,319
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 24,210	$ 22,731
Accrued income taxes	9,876	7,551
Accrued compensation	3,469	2,766
Other accrued expenses	9,411	9,676
Total current liabilities	46,966	42,724
Long term liabilities:		
Deferred income taxes	90	74
Deferred revenue	—	229
Total liabilities	47,056	43,027
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $.01 par value, 50,000,000 shares authorized; 17,252,696 and 16,963,748 shares issued at June 30, 2006 and December 31, 2005, respectively	173	169
Paid-in capital	88,360	83,220
Accumulated other comprehensive income (loss)	140	(5,265)
Retained earnings	59,549	54,994
Deferred stock-based compensation	—	(163)
	148,222	132,955
Less cost of common stock in treasury, 3,424,331 and 3,420,876 shares at June 30, 2006 and December 31, 2005, respectively	(29,736)	(29,663)
Total stockholders' equity	118,486	103,292
Total liabilities and stockholders' equity	$ 165,542	$ 146,319

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net sales	$ 52,370	$ 44,322	$ 106,543	$ 85,824
Cost of sales	32,788	28,604	68,473	54,389
Gross profit	19,582	15,718	38,070	31,435
Research and development expenses	1,919	1,570	3,765	3,170
Selling, general and administrative expenses	13,620	13,174	27,132	25,606
Operating income	4,043	974	7,173	2,659
Interest income, net	349	135	621	352
Other (expense) income, net	(411)	1,296	(572)	2,249
Income before provision for income taxes	3,981	2,405	7,222	5,260
Provision for income taxes	(1,562)	(860)	(2,667)	(1,859)
Net income	$ 2,419	$ 1,545	$ 4,555	$ 3,401
Earnings per share:				
Basic	$ 0.18	$ 0.11	$ 0.33	$ 0.25
Diluted	$ 0.17	$ 0.11	$ 0.32	$ 0.24
Shares used in computing earnings per share:				
Basic	13,802	13,467	13,722	13,493
Diluted	14,356	13,983	14,297	14,032

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

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

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Cash provided by operating activities:		
Net income	$ 4,555	$ 3,401
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,915	1,820
(Recovery) provision for doubtful accounts	(14)	2,070
Provision for inventory write-downs	562	1,741
Deferred income taxes	(315)	(157)
Tax benefit from exercise of stock options	507	—
Shares issued for employee benefit plan	271	302
Stock-based compensation	1,604	242
Changes in operating assets and liabilities:		
Accounts receivable	1,413	2,978
Inventory	(1,957)	(1,250)
Prepaid expenses and other assets	493	(1,137)
Accounts payable and accrued expenses	429	(3,788)
Accrued income and other taxes	1,835	1,974
Net cash provided by operating activities	11,298	8,196
Cash used for investing activities:		
Acquisition of equipment, furniture and fixtures	(2,115)	(1,703)
Acquisition of intangible assets	(587)	(499)
Payment for business acquired	—	(14)
Net cash used for investing activities	(2,702)	(2,216)
Cash provided by (used for) financing activities:		
Proceeds from stock options exercised	3,072	1,310
Treasury stock purchase	(222)	(6,110)
Net cash provided by (used for) financing activities	2,850	(4,800)
Effect of exchange rate changes on cash	3,689	(5,121)
Net increase (decrease) in cash and cash equivalents	15,135	(3,941)
Cash and cash equivalents at beginning of period	43,641	42,472
Cash and cash equivalents at end of period	$ 58,776	$ 38,531

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

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

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All the significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations for the three and six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our Annual Report on Form 10-K for our fiscal year ended December 31, 2005. The financial information presented in the accompanying statements reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of financial position, operations and cash flows for the periods presented. All such adjustments are of a normal recurring nature. As used herein, the terms “we”, “us” and “our” refer to Universal Electronics Inc. and its subsidiaries unless the context indicates to the contrary.

Estimates and Assumptions

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

Stock-Based Compensation

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123R, “Share Based Payments” (“SFAS 123R”) using the modified-prospective transition method. Under this transition method, compensation cost recognized in the three and six months ended June 30, 2006 includes: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of January 1, 2006 based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based awards granted subsequent to December 31, 2005 based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. We recognize these compensation costs net of estimated forfeitures and recognize the compensation costs for only those shares expected to vest on a straight-line basis over the service period of the award, which is generally the option vesting term of three to four years. We estimated the annual forfeiture rate for our executives, board of directors and non-executive employees to be 2.41% and 5.95% as of June 30, 2006, respectively, based on historical experience. In March 2005, the Securities and Exchange Commission (the “SEC”) issued Staff Accounting Bulletin No. 107 (“SAB 107”) regarding the SEC’s interpretation of SFAS 123R and the valuation of share-based compensation for public companies. We have applied the provisions of SAB 107 to our adoption of SFAS 123R.

Prior to January 1, 2006, we accounted for options granted under our plans using the recognition and measurement provisions of Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees”, (“APB 25”) and related interpretations, as permitted by SFAS No. 123, “Accounting for Stock Based Compensation” (“SFAS 123”). Under the intrinsic-value based method of APB 25, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date over the amount an employee must pay to acquire the stock. We grant options with an exercise price equal to the market value of the common stock on the date of grant; therefore no compensation expense was recognized related to those options for the three and six months ended June 30, 2005.

UNIVERSAL ELECTRONICS INC.
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(Unaudited)

Prior to January 1, 2006, we provided *pro forma* disclosure amounts in accordance with SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", as if the fair value method had been adopted as defined by SFAS 123. Under SFAS 123, compensation expense is computed based on the fair value of the stock options granted and is recognized over the period during which an employee is required to provide service in exchange for the award. The fair value of the options granted was determined at the date of grant using the Black-Scholes option valuation model.

During the three and six months ended June 30, 2006, we recorded $0.7 million and $1.4 million, respectively, in pre-tax stock-based compensation expense. The stock-based compensation was attributable to the following:

(In thousands)	**Three months Ended, June 30, 2006**	**Six months Ended, June 30, 2006**
Cost of sales	$ 6	$ 13
Research and development	94	199
Selling, general and administrative	571	1,229
Total stock-based compensation expense before income taxes	$ 671	$ 1,441

The total amount of compensation expense related to non-vested awards not yet recognized as of June 30, 2006 was $5.1 million, which is expected to be recognized over a weighted-average life of 2.29 years.

As a result of adopting SFAS 123R, the impact to the Consolidated Financial Statements for income before income taxes and net income for the three months ended June 30, 2006 was $0.7 million and $0.4 million lower, respectively, than if we had continued to account for stock-based compensation under APB 25. The impact on both basic and diluted earnings per share for the three months ended June 30, 2006 was $0.03 and $0.03 per share, respectively.

For the six months ended June 30, 2006, impact to the Consolidated Financial Statements for income before income taxes and net income was $1.4 million and $1.0 million lower, respectively, than if we had continued to account for stock-based compensation under APB 25. The impact on both basic and diluted earnings per share for the six months ended June 30, 2006 was $0.07 and $0.07 per share, respectively. In addition, prior to the adoption of SFAS 123R, we presented the tax benefit of stock option exercises as operating cash flows. Upon the adoption of SFAS 123R, tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options are classified as financing cash flows. In the three and six months ended June 30, 2006, there were no tax benefits resulting from tax deductions in excess of the compensation cost recognized.

SFAS 123R requires that we continue to provide the pro forma disclosures required by SFAS 123 for all periods presented in which share-based payments to employees are accounted for under APB 25. The following table illustrates the effect on net income and net income per share for the three and six months ended June 30, 2005 as if we applied the fair value recognition provisions of SFAS 123 to share-based employee compensation.

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(In thousands, except per share amounts)	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income as reported	$ 1,545	$ 3,401
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	—	—
Less: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(597)	(1,252)
Pro forma	$ 948	$ 2,149
Basic earnings per share:		
As reported	$ 0.11	$ 0.25
Pro forma	$ 0.07	$ 0.16
Diluted earnings per share:		
As reported	$ 0.11	$ 0.24
Pro forma	$ 0.07	$ 0.15

In light of new accounting guidance under SFAS 123R, beginning the first quarter 2006 we re-evaluated our assumptions used in estimating the fair value of employee options granted in 2006. As part of this assessment, management determined that historical volatility calculated based on our actively traded common stock is a better indicator of expected volatility and future stock price trends than implied volatility. Therefore, we continued to use historical volatility to determine expected volatility.

It is our policy to retain all earnings for use to grow the company. As such, no dividends were assumed for option grants.

As part of SFAS 123R adoption, we also examined the historical pattern of option exercises in an effort to determine if there were any discernable activity patterns based on certain employee populations. From this analysis, we identified two employee populations: (1) Executive and Board of Directors and (2) Non-Executives. We use the Black-Scholes option pricing model to value the options for each of the employee populations. The table below presents the weighted average expected life in years. The expected life computation is based on historical exercise patterns and post-vesting termination behavior within each of the two populations identified. The interest rate for periods within the expected contractual life of the award is based on the prevailing U.S. Treasury note rate for the applicable expected term.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006 (1)	2005	2006 (1)	2005
Weighted average fair value of grants	$ 8.07	$ 7.70	$ 8.09	$ 9.32
Risk-free interest rate	4.96%	3.96%	4.75%	3.71%
Expected volatility	42.12%	47.66%	42.89%	58.78%
Expected life in years	5.35	5.00	5.35	5.00

(1) The fair value calculation was based on stock options granted during the period. During the three and six months ended June 30, 2006, we granted 2,000 and 4,500 stock options to non-executive employees, respectively. There were no stock options granted to executives or directors during the three and six months ended June 30, 2006.

UNIVERSAL ELECTRONICS INC.
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The following is a summary of stock option activity for the six months ended June 30, 2006:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2005	3,150,550	$ 13.70		
Granted	4,500	17.63		$ 3,072
Exercised	(273,513)	11.23		
Forfeited/cancelled/expired	(73,750)	15.92		
Outstanding at June 30, 2006	2,807,787	$ 13.97	5.89	$ 11,463
Vested and expected to vest at June 30, 2006	2,736,237	$ 13.90	5.83	$ 11,382
Exercisable at June 30, 2006	1,997,516	$ 13.52	5.01	$ 9,320

Cash received from option exercises for the three and six months ended June 30, 2006 was $1.1 million and $3.1 million, respectively. The actual tax benefit realized for the tax deduction from option exercises of the share-based payment awards was $0.2 million and $0.5 million for the three and six months ended June 30, 2006, respectively.

On June 13, 2006, the stockholders approved the 2006 Stock Incentive Plan at our Annual Meeting. We have reserved and made available 1,000,000 shares of our common stock for issuance under the 2006 Stock Incentive Plan. As of June 30, 2006, no options or other award have been issued under the Plan.

Cash and Cash Equivalents

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

Accounts Receivable and Revenue Concentrations

Accounts receivable consisted of the following at June 30, 2006 and December 31, 2005:

(In thousands)	June 30, 2006	December 31, 2005
Accounts receivable, gross	$ 46,266	$ 45,732
Allowance for doubtful accounts	(2,421)	(2,296)
Allowance for sales returns	(1,448)	(1,575)
Accounts receivable, net	$ 42,397	$ 41,861

Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Our allowance for doubtful accounts is our best estimate of losses resulting from the inability of our customers to make their required payments. We maintain an allowance for doubtful accounts based on a variety of factors, including historical experience, length of time receivables are past due, current economic trends and changes in customer payment behavior. Also, we record specific provisions for individual accounts when we become aware of a customer’s inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer’s operating results or financial position. If circumstances related to a customer change, our estimates of the recoverability of the receivables are further adjusted, either upward or downward.

UNIVERSAL ELECTRONICS INC.
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Sales Returns

We record a provision for estimated sales returns and allowances on product sales in the same period as the related revenues are recorded. These estimates are based on historical sales returns, analysis of credit memo data and other known factors. The provision recorded for estimated sales returns and allowances is deducted from gross sales to arrive at net sales in the period the related revenue is recorded. Sales allowances reduce gross accounts receivable to arrive at accounts receivable, net in the same period the related receivable is recorded. Our contractual sales return periods range up to six months. We have no other obligations after delivery of our products other than the associated warranties.

Significant Customers

We had sales to one significant customer of $7.0 million and $7.0 million, representing 13.3% and 15.8% of our net sales for the three months ended June 30, 2006 and 2005, respectively. Our trade receivable with this customer amounted to $3.4 million or 8.0% and $2.1 million or 5.1% of our total accounts receivable at June 30, 2006 and December 31, 2005, respectively. In addition we had sales to a customer and its sub-contractors that, when combined, totaled $7.0 million and $8.0 million, accounting for 12.7% and 18.0% of net sales for the three months ended June 30, 2006 and 2005, respectively. Our trade receivable with this customer and its subcontractors amounted to $5.1 million or 12.1% and $3.3 million or 7.8% of our total trade receivable balance at June 30, 2006 and December 31, 2005, respectively. There were no other customers with purchases greater than ten percent of the total net sales at June 30, 2006 and June 30, 2005.

We had sales to one significant customer of $14.0 million and $11.8 million, representing 13.1% and 13.7% of our net sales for the six months ended June 30, 2006 and 2005, respectively. In addition, for the same periods, we had sales to a customer and its subcontractors that, when combined, totaled $18.7 million and $16.9 million accounting for 17.5% and 19.7% of net sales for the six months ended June 30, 2006 and 2005, respectively.

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

Inventories and Significant Suppliers

Inventories

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

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

Net inventories consisted of the following at June 30, 2006 and December 31, 2005:

(In thousands)	June 30, 2006	December 31, 2005
Components	$ 6,483	$ 5,508
Finished goods	24,641	23,474
Reserve for inventory scrap	(1,978)	(2,274)
Inventory, net	$ 29,146	$ 26,708

During the quarter ended June 30, 2006 inventory write-downs totaled $0.3 million compared to $0.8 million for the quarter ended June 30, 2005. During the six months ended June 30, 2006 inventory write-downs totaled $0.6

UNIVERSAL ELECTRONICS INC.
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(Unaudited)

million compared to $1.7 million recorded in the six months ended June 30, 2005. Inventory write-downs are a normal part of our business, and result primarily from product life cycle estimation variances.

Significant Suppliers

Most of the components used in our products are available from multiple sources. We have elected to purchase integrated circuits (“IC”), used principally in our wireless control products, from one main source. Purchases from this major supplier amounted to $4.2 million and $2.4 million, representing 11.4% and 10.3%, respectively, of total inventory purchases for the three months ended June 30, 2006 and 2005. During the six months ended June 30, 2006, purchases from this supplier amounted to $7.1 million, representing 11.2% of total inventory purchases. During the six months ended June 30, 2005, purchases from this supplier amounted to $4.9 million, representing 10.7% of total inventory purchases.

Accounts payable with the aforementioned integrated circuit supplier amounted to $1.3 million and $1.1 million, representing 5.2% and 4.7%, respectively, of total accounts payable at June 30, 2006 and December 31, 2005. There was no other IC supplier with inventory purchases greater than ten percent of the total inventory purchases at June 30, 2006 or June 30, 2005.

In addition, during the quarter ended June 30, 2006, we purchased component and finished good products from two major suppliers. Purchases from these two major suppliers amounted to $10.3 million and $4.6 million representing 27.7% and 12.3%, respectively, of total inventory purchases for the three months ended June 30, 2006. During the three months ended June 30, 2005 purchases from the same two suppliers amounted to $9.5 million and $2.3 million representing 41.0% and 10.0%, respectively, of total inventory purchases.

During the six months ended June 30, 2006, purchases from these two suppliers amounted to $18.7 million and $7.5 million, representing 29.4% and 11.8% of total inventory purchases, respectively. During the six months ended June 30, 2005, purchases from these two suppliers amounted to $18.4 million and $4.4 million, representing 39.9% and 9.4% of total inventory purchases, respectively.

Accounts payable with the aforementioned two suppliers amounted to $7.6 million and $2.2 million, respectively, representing 31.3% and 9.3% of the total accounts payable at June 30, 2006. At December 31, 2005, accounts payable with the same suppliers amounted to $6.5 million and $1.9 million, respectively, representing 28.5% and 8.3% of the total accounts payable. There was no other component and finished goods supplier with inventory purchases greater than ten percent of the total inventory purchases at June 30, 2006 or June 30, 2005.

Income Taxes

We use the estimated effective tax rate for the year to determine our provision for income taxes for interim periods. We recorded income tax expense of $1.6 million for the three months ended June 30, 2006 compared to $0.9 million for the same period last year. Our estimated effective tax rate was 39.2% and 35.8% during the three months ended June 30, 2006 and 2005, respectively. We recorded income tax expense of $2.7 million for the six months ended June 30, 2006 compared to $1.9 million for the same period last year. Our estimated effective tax rate was 36.9% and 35.3% during the six months ended June 2006 and 2005, respectively. The increase in our effective tax rate for the three months ended June 30, 2006 versus the same period in 2005 is due primarily to unfavorable adjustments approximating $150 thousand, including interest, resulting from both federal and state tax audits.

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Earnings Per Share

Basic earnings per share are computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and dilutive potential common shares which includes the dilutive effect of stock options and restricted stock grants. Dilutive potential common shares for all periods presented are computed utilizing the treasury stock method. In the computation of diluted earnings per common share for the three months ended June 30, 2006 and 2005, 1,154,931 and 1,027,500 stock options, respectively, with exercise prices greater than the average market price of the underlying common stock were excluded because their inclusion would have been antidilutive. In the computation of diluted earnings per common share for the six months ended June 30, 2006 and 2005, 1,131,882 and 1,027,000 stock options, respectively, with exercise prices greater than the average market price of the underlying common stock were excluded because their inclusion would have been antidilutive.

Earnings per share for the three and six months ended June 30, 2006 and 2005 are calculated below.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per-share amounts):	**2006**	**2005**	**2006**	**2005**
BASIC				
Net income	$ 2,419	$ 1,545	$ 4,555	$ 3,401
Weighted-average common shares outstanding	13,802	13,467	13,722	13,493
Basic earnings per share	$ 0.18	$ 0.11	$ 0.33	$ 0.25
DILUTED				
Net income	$ 2,419	$ 1,545	$ 4,555	$ 3,401
Weighted-average common shares outstanding for basic	13,802	13,467	13,722	13,493
Dilutive effect of stock options and restricted stock	554	516	575	539
Weighted-average common shares outstanding on a diluted basis	14,356	13,983	14,297	14,032
Diluted earnings per share	$ 0.17	$ 0.11	$ 0.32	$ 0.24

Comprehensive Income (Loss)

The components of comprehensive income (loss) are listed below:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2006**	**2005**	**2006**	**2005**
Net Income	$ 2,419	$ 1,545	$ 4,555	$ 3,401
Other comprehensive income (loss):				
Foreign currency translations	3,750	(4,650)	5,405	(7,540)
Comprehensive income (loss):	$ 6,169	$ (3,105)	$ 9,960	$ (4,139)

Other (Expense) Income, Net

The components of other (expense) income, net are listed below:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2006**	**2005**	**2006**	**2005**
(Loss) gain on foreign currency exchange	$ (411)	$ 1,301	$ (572)	$ 2,244
Other	—	(5)	—	5
Other (expense) income, net	$ (411)	$ 1,296	$ (572)	$ 2,249

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(Unaudited)

Other Accrued Expenses

The components of other accrued expense are listed below:

(In thousands)	June 30, 2006	December 31, 2005
Accrued sales discounts/rebates	$ 2,291	$ 3,406
Accrued sales and VAT taxes	574	1,325
Accrued freight	1,336	1,041
Accrued warranties	516	414
Accrued advertising and marketing	614	566
Deferred revenue	801	762
Other	3,279	2,162
Total	$ 9,411	$ 9,676

Treasury Stock

During the six months ended June 30, 2006, we repurchased 13,455 shares of our common stock at a cost of $0.2 million. During the six months ended June 30, 2005, we repurchased 356,285 shares of our common stock at a cost of $6.1 million. These shares were recorded as shares held in treasury at cost. The shares will generally be held by us for future use as management and the Board of Directors deem appropriate. In addition, some of these shares will be used by us to compensate the outside directors of the Company. During the six months ended June 30, 2006 and June 30, 2005, shares totaling 10,000 and 10,000, respectively, were issued to the outside directors for services performed.

New Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” to clarify the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109. FIN 48 prescribes a recognition threshold and measurement criteria for the recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for years beginning after December 15, 2006. We are currently evaluating the effect that the adoption of FIN 48 will have on our consolidated results of operations and financial condition, but we do not expect FIN 48 to have a material impact.

In March 2006, the Task Force of the FASB issued EITF No. 06-3 “How Taxes Collected from Customers and Remitted to the Governmental Authorities Should be Presented in the Income Statement (That is Gross versus Net Presentation).” EITF 06-3 provides guidance on the presentation of taxes remitted to governmental authorities on the income statement. The Task Force reached the conclusion that the presentation of taxes on either gross (included in revenue and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to APB Opinion No. 22. Any such taxes that are reported on a gross basis should be disclosed if amounts are significant. EITF 06-3 is effective for years beginning after December 15, 2006. We record sales tax on a net basis. This is included in accrued sales tax and VAT.

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Goodwill and Intangible Assets

We are composed of two operating segments. Under the requirements of SFAS 142, "Goodwill and Intangible Assets", the unit of accounting for goodwill is at a level of reporting referred to as a "reporting unit." SFAS 142 defines a reporting unit as either (1) an operating segment — as defined in SFAS 131, "Disclosures about Segments of an Enterprise and Related Information" or (2) one level below an operating segment — referred to as a component. Our domestic and international components are "reporting units" within the operating segment "Core Business." SimpleDevices, Inc. ("SimpleDevices") is the other operating segment and is a "reporting unit" as well.

Goodwill for the domestic operations was generated from the acquisition of a remote control company in 1998. Goodwill for international operations resulted from the acquisition of remote control distributors in the UK in 1998, Spain in 1999 and France in 2000. We acquired SimpleDevices in 2004, and of the total purchase price, approximately $7.1 million was allocated to goodwill.

Goodwill information for each reporting unit is as follows:

(In thousands)	June 30, 2006	December 31, 2005
Core Business Segment		
Domestic	$ 1,191	$ 1,191
International*	2,264	2,117
	3,455	3,308
SimpleDevices	7,123	7,123
Total Goodwill	$ 10,578	$ 10,431

* The difference in international goodwill reported at June 30, 2006, as compared to the goodwill reported at December 31, 2005, was the result of fluctuations in the foreign currency exchange rates used to translate the balance into U.S. dollars.

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Besides goodwill, our intangible assets consist principally of distribution rights, patents, trademarks, purchased technologies and capitalized software costs. Capitalized amounts related to patents represent external legal costs for the application and maintenance of patents. Intangible assets are amortized using the straight-line method over their estimated period of benefit, ranging from two to ten years.

Information regarding our other intangible assets is as follows (in thousands):

	June 30, 2006	December 31, 2005
Carrying amount:		
Distribution rights (10 years)	$ 368	$ 340
Patents (10 years)	5,278	4,726
Trademark and trade names (10 years)	889	885
Developed and core technology (5 years)	2,410	2,410
Capitalized software (2 years)	898	898
Other (5-7 years)	370	372
Total carrying amount	$ 10,213	$ 9,631
Accumulated amortization:		
Distribution rights	$ 49	$ 45
Patents	2,029	1,816
Trademark and trade names	161	118
Developed and core technology	1,234	993
Capitalized software	686	559
Other	130	93
Total accumulated amortization	$ 4,289	$ 3,624
Net carrying amount:		
Distribution rights	$ 319	$ 295
Patents	3,249	2,910
Trademark and trade names	728	767
Developed and core technology	1,176	1,417
Capitalized software	212	339
Other	240	279
Total net carrying amount	$ 5,924	$ 6,007

Amortization expense for the three and six months ended June 30, 2006 was approximately $0.3 million and $0.6 million, respectively. Amortization expense for the three and six months ended June 30, 2005 was approximately $0.3 million and $0.5 million, respectively. Estimated amortization expense for existing intangible assets for each of the five succeeding years ending December 31 are as follows
(in thousands):

2006 (remaining six months)	$ 730
2007	1,173
2008	1,049
2009	949
2010	649
Thereafter	1,374
	$ 5,924

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Derivatives

Our foreign currency exposures are primarily concentrated in the Euro and British Pound. Depending on the predictability of future receivables, payables and cash flows in each operating currency, we periodically enter into foreign currency exchange contracts with terms normally lasting less than nine months to protect against the adverse effects that exchange-rate fluctuations may have on our foreign currency-denominated receivables, payables and cash flows. We do not enter into financial instruments for speculation or trading purposes. These derivatives have not qualified for hedge accounting. The gains and losses on both the derivatives and the foreign currency-denominated balances are recorded as foreign exchange transaction gains or losses and are classified in other (expense) income, net.

We held foreign currency exchange contracts which resulted in a net pre-tax loss of approximately $159 thousand for the quarter ended June 30, 2006, and a net pre-tax gain of approximately $35 thousand for the quarter ended June 30, 2005. For the six months ended June 30, 2006 and 2005, we had a net pre-tax gain of $35 thousand and net pre-tax loss of $179 thousand, respectively. We had three foreign currency exchange contracts outstanding at June 30, 2006, a forward contract with a notional value of $7.0 million and two options structures known as participating forwards, both with a notional value of $6.25 million. We had two foreign currency exchange contracts outstanding at December 31, 2005, a forward contract with a notional value of $11.0 million, and a participating forward with a notional value of $25.0 million.

Forward Contract

We held a USD/Euro forward contract with a notional value of $7.0 million and a forward rate of $1.2590/Euro as of June 30, 2006, due for settlement on July 21, 2006. We held the Euro position on this contract. The value of this contract was $116 thousand at June 30, 2006. This contract is included in prepaid expenses and other current assets.

Participating Forwards

We entered into a USD/Euro and a USD/GBP participating forward with 50% participation rates and notional values of $6.25 million in April 2006. The strike prices of the participating forwards are $1.1865 (USD/Euro) and $1.6900 (USD/GBP). The contracts expire on December 29, 2006. The loss recorded related to these contracts was $535 thousand during the quarter and six months ended June 30, 2006. The value of these contracts was approximately -($0.5) million at June 30, 2006. These contracts are included in other accrued expenses.

Business Segments and Foreign Operations

Industry Segments

We have two reportable segments, Core Business and SimpleDevices. In our Core Business segment, we have developed a broad line of easy-to-use, pre-programmed universal wireless control products and audio-video accessories that are marketed to enhance home entertainment systems. The various channels of distribution utilized by our Core Business segment include international retail, private label, OEMs, cable and satellite service providers and companies in the computing industry. SimpleDevices, based in San Mateo, California, develops software and firmware solutions that can enable devices such as TVs, set-top boxes, stereos, automotive audio systems, cell phones and other consumer electronic products to wirelessly connect and interact with home networks and interactive services to deliver digital entertainment and information.

Factors Used to Identify Reportable Segments

SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*, defines an operating segment, in part, as a component of an enterprise whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Operating segments may be aggregated only to the limited extent permitted by the standard.

During the fourth quarter of 2004 we purchased SimpleDevices for approximately $12.8 million in cash, including direct acquisition costs, and a potential performance-based payment of our unregistered common stock, if certain future financial objectives are achieved.

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As a result of the performance based incentive and other factors, management has reviewed SimpleDevices' discrete operating results since the acquisition. This review and factors, including product differences, current management structure, distribution methods, and economic characteristics, supported our conclusion as of June 30, 2006 and December 31, 2005 that SimpleDevices is a reportable segment in accordance with SFAS 131. In the future, as the integration of SimpleDevices' operations continues and the performance based incentive expires, we may or may not determine that SimpleDevices continues to be a reportable segment in accordance with SFAS 131.

Measurement of Profit or Loss of Segment Assets

The disaggregated financial results of our reportable segments have been prepared using a management approach, which is consistent with the basis and manner in which we internally disaggregate financial information for the purposes of making internal operating and resource allocation decisions. The accounting policies of our reportable segments are the same as those described in the summary of significant accounting policies, except that the segment information does not include a full allocation of corporate overhead costs between the SimpleDevices and Core Business segments.

Segment Income (Loss) and Assets for the three months ended June 30, 2006 and 2005:

	Three Months Ended June 30, 2006		
(in thousands)	**Core Business**	**SimpleDevices**	**Total**
Net sales	$ 52,252	$ 118	$ 52,370
Depreciation and amortization	866	129	995
Research and development	1,583	336	1,919
Interest income, net	349	—	349
Income (loss) before income taxes	5,104	(1,123)	3,981
Assets	$162,418	$ 3,124	$165,542

	Three Months Ended June 30, 2005		
(in thousands)	**Core Business**	**SimpleDevices**	**Total**
Net sales	$ 44,195	$ 127	$ 44,322
Depreciation and amortization	818	122	940
Research and development	1,570	—	1,570
Interest income, net	135	—	135
Income (loss) before income taxes	3,480	(1,075)	2,405
Assets	$124,299	$ 3,215	$127,514

Segment Income (Loss) and Assets for the six months ended June 30, 2006 and 2005:

	Six Months Ended June 30, 2006		
(in thousands)	**Core Business**	**SimpleDevices**	**Total**
Net sales	$106,189	$ 354	$106,543
Depreciation and amortization	1,659	256	1,915
Research and development	3,144	621	3,765
Interest income, net	621	—	621
Income (loss) before income taxes	9,661	(2,439)	7,222
Assets	$162,418	$ 3,124	$165,542

	Six Months Ended June 30, 2005		
(in thousands)	**Core Business**	**SimpleDevices**	**Total**
Net sales	$ 85,173	$ 651	$ 85,824
Depreciation and amortization	1,576	244	1,820
Research and development	3,170	—	3,170
Interest income, net	352	—	352
Income (loss) before income taxes	7,023	(1,763)	5,260
Assets	$124,299	$ 3,215	$127,514

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Our sales to external customers by geographic area are presented below:

(In thousands)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Sales				
United States	$ 25,901	$ 25,741	$ 58,075	$ 49,046
International:				
United Kingdom	4,870	3,893	9,730	8,061
Asia	8,015	3,690	14,940	6,432
Spain	2,332	1,739	4,021	4,129
Germany	1,645	1,543	3,193	3,636
France	1,470	1,644	2,355	3,074
Argentina	836	192	1,353	342
Australia	828	559	1,380	1,106
Switzerland	162	1,840	573	2,953
South Africa	1,933	745	3,373	1,072
All Other	4,378	2,736	7,550	5,973
Total International	26,469	18,581	48,468	36,778
Total Net Sales	$ 52,370	$ 44,322	$ 106,543	$ 85,824

Specific identification of the customer location was the basis used for attributing revenues from external customers to individual countries. Revenue for Australia and Argentina are separately disclosed beginning quarter ended June 30, 2006.

Our geographic Long-Lived asset information is as follows:

(In thousands)	June 30, 2006	December 31, 2005
Long-lived Tangible Assets		
United States	$ 3,893	$ 3,137
International	2,210	1,618
Total	$ 6,103	$ 4,755

At June 30, 2006, we had approximately $2.9 million and $55.9 million of cash and cash equivalents in the United States and Europe, respectively. At December 31, 2005, we had approximately $1.0 million and $42.6 million of cash and cash equivalents in the United States and Europe, respectively.

Guarantees and Product Warranties

The Company indemnifies its directors and officers to the maximum extent permitted under the laws of the State of Delaware. The Company has purchased directors and officers insurance coverage to cover claims made against the directors and officers during the applicable policy periods. The amounts and types of coverage have varied from period to period as dictated by market conditions.

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We warrant our products against defects in materials and workmanship arising during normal use. We service warranty claims directly through our customer service department or contracted third-party warranty repair facilities. Our warranty period ranges up to three years. We provide for estimated product warranty expenses, which are included in cost of sales, as we sell the related products. Because warranty expense is a forecast based on the best available information, mostly historical claims experience, actual claim costs may differ from the amounts provided. The change in the liability for product warranties is presented below (in thousands):

Description	Balance at Beginning of Period	Accruals for Warranties Issued During the Period	Settlements (in Cash or in Kind) During the Period	Balance at End of Period
Six Months Ended June 30, 2006	$414	$222	$(120)	$516
Six Months Ended June 30, 2005	$183	$ 69	$ (29)	$223

Commitments and Contingencies

We are parties to lawsuits and claims arising in the normal course of our business.

In July 2006, we filed suit against Remote Technologies, Inc. ("RTI") alleging that RTI has infringed certain of the our patents. RTI has not yet answered our complaint but it is expected that it will do so before September 30, 2006. We will seek a settlement of this matter, but if settlement is not possible, we intend to pursue this matter vigorously.

There are no other material pending legal proceedings nor any changes in any material pending legal matters previously disclosed other than litigation that is incidental to the ordinary course of our business, to which we or any of our subsidiaries is a party or of which our respective property is the subject. We do not believe that any of the claims made against us in any of the pending matters have merit and, except for the matters which we intend to seek settlement, we intend to vigorously defend ourselves against them, or, in the case in which we are plaintiff, to pursue them.

We maintain directors' and officers' liability insurance which insures our individual directors and officers against certain claims such as those alleged in the above lawsuits, as well as attorney's fees and related expenses incurred in connection with the defense of such claims.

No Tax Shelter Penalty

No tax shelter penalty was assessed against us or any of our subsidiaries by the Internal Revenue Service ("IRS"), in fiscal year 2005, the fist or second quarter of this year, or at any other time, in connection with any transaction deemed by the IRS to be abusive or to have a significant tax avoidance purpose.

Sales Tax Audit

We are currently under a sales tax audit by the State Board of Equalization for the period July 1, 2000 through September 30, 2005. Although this sales tax audit is not complete as of June 30, 2006, it is likely we will be assessed sales tax related to sales made to a significant customer during the aforementioned period. As of June 30, 2006, we estimated the sales tax assessment to be approximately $400 thousand; however, this customer has agreed to reimburse us in full for any sales tax due which relate to sales made to them. As a result, no accrual has been recorded as of June 30, 2006.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

We have developed a broad line of pre-programmed universal wireless control products and audio-video accessories that are marketed to enhance home entertainment systems. Our channels of distribution include international retail, U.S. retail, private label, OEMs, cable and satellite service providers, CEDIA, and companies in the computing industry. We believe that our universal remote control database contains device codes that are capable of controlling virtually all infrared remote ("IR") controlled TVs, VCRs, DVD players, cable converters, CD players, audio components and satellite receivers, as well as most other infrared remote controlled devices worldwide.

Beginning in 1986 and continuing today, we have compiled an extensive library that covers nearly 263,000 individual device functions and over 2,800 individual consumer electronic equipment brand names. Our library is regularly updated with new IR codes used in newly introduced video and audio devices. All such IR codes are captured from the original manufacturer's remote control devices or manufacturer's specifications to ensure the accuracy and integrity of the database. We have also developed patented technologies that provide the capability to easily upgrade the memory of the wireless control device by adding IR codes from the library that were not originally included.

Beginning in 2002, we began selling our Nevo® 1.0 software embedded on our chip. Nevo 2.0® was launched in July of 2004. Both of these products were featured on a series of Hewlett Packard Personal Digital Assistants (PDA), which reached their end of life during the third quarter of 2005. Building on this platform, we used some components of the Nevo 2.0® technology in a new product named NevoSL® which we began to ship in the second quarter of the 2005. NevoSL® is a universal controller that delivers complete audio, visual and Wi-Fi digital media control for the networked home.

From October 1, 2004 through December 31, 2004, we acquired over 99% of the outstanding shares of SimpleDevices, for approximately $12.8 million in cash, including direct acquisition costs, plus a performance-based payment of our unregistered common stock to be paid in the first quarter of 2007 if certain financial objectives are achieved. The performance-based payment has not been reflected as part of the purchase price as of June 30, 2006, since we believe that it is not probable that the performance metrics will be met.

The value we received from this acquisition relates primarily to SimpleDevices' unique capabilities, as well as its complete and in-process technology. SimpleDevices has developed connected-device technology solutions that link the home computer and the Internet to existing consumer electronic devices in the home and car. The company provides UPnP-compatible software to transform common home devices into "connected" devices — that is, devices that can find, control and share entertainment media across a home network. UPnP is an architecture for pervasive peer-to-peer network connectivity of intelligent appliances, wireless devices, and PCs of all form factors. It is designed to bring standards-based connectivity to ad hoc or unmanaged networks whether in the home, in a small business, in public spaces, or attached to the Internet. UPnP is a distributed, open networking architecture that leverages TCP/IP and the Web technologies to enable seamless proximity networking in addition to control and data transfer among networked devices in the home, office, and public spaces.

Since acquiring SimpleDevices, we have integrated, and in certain respects improved upon, SimpleDevices' technologies with and into our own resulting in the creation of new wireless control devices that will allow for media control. Moreover, through this integration of technologies, we have improved and expanded our relationships with our customers and with SimpleDevices' customers. In addition, we have methodically integrated SimpleDevices' operations and administrative functions into our own resulting in both operational efficiencies and cost savings.

Results of Operations

The following table sets forth our results of operations expressed as a percentage of net sales for the three and six months ended June 30, 2006 and 2005:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net sales	100%	100%	100%	100%
Cost of sales	62.6	64.5	64.3	63.4
Gross profit	37.4	35.5	35.7	36.6
Research and development expenses	3.7	3.5	3.5	3.7
Selling, general and administrative expenses	26.0	29.8	25.5	29.8
Operating expenses	29.7	33.3	29.0	33.5
Operating income	7.7	2.2	6.7	3.1
Interest income, net	0.7	0.3	0.6	0.4
Other (expense) income	(0.8)	2.9	(0.5)	2.6
Income before income taxes	7.6	5.4	6.8	6.1
Provision for income taxes	(3.0)	(1.9)	(2.5)	(2.1)
Net income	4.6%	3.5%	4.3%	4.0%

Three Months Ended June 30, 2006 versus Three Months Ended June 30, 2005:

The following table sets forth our net sales by our Business and Consumer lines for the three months ended June 30, 2006 and 2005:

	2006		2005	
	$ (millions)	% of total	$ (millions)	% of total
Net sales:				
Business	$ 40.4	77.1%	$ 32.5	73.4%
Consumer	12.0	22.9%	11.8	26.6%
Total net sales	$ 52.4	100.0%	$ 44.3	100.0%

Overview

Net sales for the second quarter of 2006 were $52.4 million, an increase of 18% compared to $44.3 million for the second quarter of 2005. Net income for the second quarter of 2006 was $2.4 million or $0.18 per share (basic) and $0.17 per share (diluted) compared to $1.5 million or $0.11 per share (basic) and $0.11 per share (diluted) for the second quarter of 2005.

Consolidated

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were approximately 77% of net sales for the second quarter of 2006 compared to 73% for the second quarter of 2005. Net sales in our Business lines for the second quarter of 2006 increased by 24% to $40.4 million from $32.5 million for the same period last year. This increase in sales resulted primarily from an increase in the volume of remote control sales and the sale of products with slightly higher prices. The increase in remote control sales volume was attributable to the continued deployment of advanced function set-top boxes by the service operators and market share gains with a few key subscription broadcasting customers. These advanced functions include digital video recording ("DVR"), video-on-demand ("VOD"), and high definition television ("HDTV"). We expect the deployment of the advanced function set-top boxes by the service operators will continue into the foreseeable future as penetration for each of these functions continues to increase. As a result, we expect Business category revenue to range from $161 to $166 million in 2006**.**

Net sales in our Consumer lines (*One For All*® international retail, private label, custom installers, and direct import) were approximately 23% of net sales for the second quarter of 2006 compared to 27% for the second quarter of 2005. Net sales in our Consumer lines for the second quarter of 2006 increased by 2% to $12.0 million from

$11.8 million for the same period last year. The increase in sales resulted primarily from an increase in international retail sales, which were $1.2 million in the second quarter of 2006, up from $0.5 million in the second quarter of 2005. This increase was due to stronger sales in Australia and Argentina. This increase was also driven by our entry into the CEDIA market, which occurred late in the second quarter of 2005. This added net sales of $0.5 million and 5% to the Consumer category net sales growth in the second quarter of 2006 as compared to the second quarter of 2005. Partially offsetting these increases were decreases in private label sales, which were down by $0.7 million, and in direct import sales, down by $0.4 million. The decline in both private label and direct import sales are directly attributable to a decrease in the demand for Kameleon products. We expect Consumer category revenue to range from $57 to $62 million in 2006, with a higher percentage of retail sales occurring in the fourth quarter, consistent with prior years.

Gross profit for the second quarter of 2006 was $19.6 million compared to $15.7 million for the second quarter of 2005. Gross profit as a percentage of net sales for the second quarter of 2006 was 37.4% compared to 35.5% for the second quarter of 2005. The increase in gross profit as a percentage of net sales was primarily attributable to the decline in the volume of units shipped using air freight, which added 1.9% to the gross profit rate and improved gross profit by $0.8 million. A reduction in inventory scrap expense of $0.3 million added 0.8% to the gross profit rate. The reduction of inventory scrap expense was driven by the sell-through of slow-moving inventory and generally improved inventory management. Partially offsetting these increases was a shift in mix towards subscription broadcast sales, which generally have a lower gross profit rate as compared to our other sales, representing a larger percentage of our total business. The impact of this change in mix was a 0.6% reduction in the gross profit rate. Gross profit was also negatively impacted by an additional $0.3 million of sub-contract labor expense recorded in the second quarter of 2006 as compared to the second quarter of 2005. Sub-contract labor increased as a result of the mix shift towards subscription broadcast sales as well as an increase in the number of third-party warehouse locations. Sub-contract labor contributed to a 0.3% reduction in the gross profit rate.

Research and development expenses increased 22% from $1.6 million in the second quarter of 2005 to $1.9 million in the second quarter of 2006. Approximately $0.1 million of this increase was attributable to stock-based compensation expense. The remainder of the increase is due to development efforts taking place at SimpleDevices and increased spending on the development of audio-video accessories for sale in our retail channel. Partially offsetting these increases was less spending on the Nevo® platform. We expect research and development expense to range from $7.0 and $8.0 million for the full year 2006.

Selling, general and administrative expenses increased 3% from $13.2 million in the second quarter of 2005 to $13.6 million in the second quarter of 2006. Approximately $0.9 million of this increase was attributable to payroll and benefits due to increase in headcount, $0.6 million to stock-based compensation expense due to implementation of SFAS 123R, $0.3 million to advertising, $0.2 million to employee bonus expense, and $0.2 million to travel and meals. These items were partially offset by a reduction in bad debt expense, which decreased by $1.8 million, primarily due to the $1.6 million write-down of a receivable due from a former European distributor in the second quarter 2005. We expect that selling, general, and administrative expenses will range from $56 to $58 million for the full year 2006.

In the second quarter of 2006, we recorded $0.3 million of net interest income compared to $0.1 million during the second quarter of 2005. This increase was due to higher money market rates and a higher average cash balance in Europe. We expect this trend to continue throughout 2006.

For the second quarter of 2006, net other expense was $0.4 million as compared to net other income of $1.3 million for the second quarter of 2005. The net other expense in the second quarter of 2006 was the result of a foreign currency exchange loss of $0.4 million, compared to a foreign currency exchange gain of $1.3 million for the second quarter of 2005. The foreign currency loss in the second quarter of 2006 was due to the losses incurred on the participating forward contracts that were put in place in April 2006. $1.0 million of the foreign currency gain in the second quarter of 2005 was due to the gain incurred on the participating forward contract that was put in place in April 2005 and $0.3 million was due to unhedged balances held in foreign currency.

We recorded income tax expense of $1.6 million for the second quarter of 2006 compared to $0.9 million for the second quarter of 2005. Our estimated effective tax rate was 39.2% during the three months ended June 30, 2006 compared to 35.8 % during the three months ended June 30, 2005. The increase in the estimated effective tax rate was primarily due to unfavorable adjustments of approximately $150 thousand, including interest, that were identified during the audits of prior year tax returns that were conducted by both federal and state tax authorities**.**

SimpleDevices

SimpleDevices recorded net sales for the second quarter of 2006 of $118 thousand, a decrease of 7% compared to $127 thousand for the second quarter of 2005. The pre-tax loss for the second quarter of 2006 was $1.1 million compared to $1.1 million for the second quarter of 2005. Sales were down by $9 thousand as a result of focusing the activities of SimpleDevices to engineering services related to the development of hardware utilized by its customers to run the SimplePlatforms software as opposed to non-recurring engineering services work. Sales attributable to SimpleDevices are included in our Business category when we discuss consolidated results. The results of SimpleDevices have been included since the date of acquisition and are described below.

Gross loss for the second quarter of 2006 was $20 thousand compared to gross loss of $100 thousand for the second quarter of 2005. Gross loss decreased by $80 thousand due to the performance of more profitable development work in the second quarter of 2006.

Research and development expenses were $0.3 million for the second quarter of 2006, compared to no research and development expense in the second quarter of 2005. Research and development expenses consisted primarily of internal and external development efforts related to SimpleDevices' core software product.

Selling, general and administrative expenses were $0.8 million for the second quarter of 2006, compared to $1.1 million in the second quarter of 2005. Selling, general, and administrative expenses consisted primarily of engineering payroll and benefit costs as well as outside development costs.

We anticipate that sales generated as a result of software customization and engineering services will begin to decline as a percentage of total sales as software licensing fees and the associated maintenance fees begin to increase. We also anticipate that gross profit and gross profit as a percentage of net sales will increase as this shift occurs.

Six Months Ended June 30, 2006 versus Six Months Ended June 30, 2005:

The following table sets forth our net sales by our Business and Consumer lines for the six months ended June 30, 2006 and 2005:

	2006		2005	
	$ (million)	% of total	$ (million)	% of total
Net sales:				
Business	$ 83.1	78.0%	$ 62.1	72.4%
Consumer	23.3	22.0%	23.7	27.6%
Total net sales	$ 106.5	100.0%	$ 85.8	100.0%

Consolidated

Net sales for the six months ended June 30, 2006 were $106.5 million, an increase of 24% compared to $85.8 million for the six months ended June 30, 2005. Net income for the six months ended June 30, 2006 was $4.6 million or $0.33 per share (basic) and $0.32 per share (diluted) compared to $3.4 million or $0.25 per share (basic) and $0.24 per share (diluted) for the six months ended June 30, 2005.

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were approximately 78% of net sales for the six months ended June 30, 2006 compared to 72% for the six months ended June 30, 2005. Net sales in our Business lines for the six months ended June 30, 2006 increased by 34% to $83.1 million from $62.1 million for the same period last year. This increase in sales resulted primarily from an increase in the volume of remote control sales and the sale of products with slightly higher prices. The increase in remote control sales volume was attributable to the continued deployment of advanced function set-top boxes by the service operators and market share gains with a few key subscription broadcasting customers. These advanced functions include digital video recording ("DVR"), video-on-demand ("VOD"), and high definition television ("HDTV"). We expect that the deployment of the advanced function set-top boxes by the service operators will continue into the foreseeable future as penetration for each of these functions continues to increase. As a result, we expect Business category revenue to range from $161 to $166 million in 2006**.**

Net sales in our Consumer lines (*One For All*® international retail, private label, custom installers and direct import) were approximately 22% of net sales for the six months ended June 30, 2006 compared to 28% for the six months ended June 30, 2005. Net sales in our Consumer lines for the six months ended June 30, 2006 decreased by 1% to $23.3 million from $23.7 million for the same period last year. The decrease in sales resulted primarily from a decrease in European retail sales, which were down 8% to $17.4 million in the six months ended June 30, 2006 from $18.9 million in the six months ended June 30, 2005. This decrease was primarily attributable to lower volumes in the Nordic countries and France, as well as the weakening of both the Euro and British Pound compared to the U.S. Dollar. The impact of the weaker currencies resulted in a decrease in net sales of approximately $0.9 million. Excluding the negative foreign exchange impact, European retail sales decreased $0.7 million. Additionally, we experienced decreases in private label sales, which were down by $0.6 million, and in direct import sales, down by $0.2 million. Both decreases were driven by slowing sales of Kameleon products. Partially offsetting these decreases was our entry into the CEDIA market, which occurred late in the second quarter of 2005. This added net sales of $1.0 million and 4% to Consumer category net sales growth as compared to the six months ended June 30, 2005. International retail sales increased by 101% to $2.2 million in the six months ended June 30, 2006, from $1.1 million in the six months ended June 30, 2005, driven by strength in Australia, New Zealand, and Argentina. We expect Consumer category revenue to range from $57 to $62 million in 2006, with a higher percentage of retail sales occurring in the fourth quarter, consistent with prior years.

Gross profit for the six months ended June 30, 2006 was $38.1 million compared to $31.4 million for the six months ended June 30, 2005. Gross profit as a percentage of net sales for the six months ended June 30, 2006 was 35.7% compared to 36.6% for the six months ended June 30, 2005. The decrease in gross profit as a percentage of net sales was primarily attributable to subscription broadcast sales, which generally have a lower gross profit rate as compared to our other sales, representing a larger percentage of our total business. The impact of this change in mix was a 3.1% reduction in the gross profit rate. Additional sub-contract labor expense also negatively impacted gross profit by $0.8 million in the six months ended June 30, 2006 as compared to the six months ended June 30, 2005. Sub-contract labor increased as a result of the mix shift towards subscription broadcast sales as well as an increase in the number of third-party warehouse locations. Sub-contract labor contributed to a 0.5% reduction in the gross profit rate. Gross profit was also negatively impacted by the weakening of both the Euro and British Pound compared to the U.S. Dollar, which resulted in a decrease in gross profit of approximately $0.8 million and deducted 0.4% from the gross profit rate. These items were partially offset by the decline in the volume of units shipped using air freight, which added 1.5% to the gross profit rate and improved gross profit by $1.1 million. A reduction in inventory scrap expense of $1.2 million added 1.5% to the gross profit rate. The reduction of inventory scrap expense was driven by the sell-through of slow-moving inventory and generally improved inventory management.

Research and development expenses increased 19% from $3.2 million in the six months ended June 30, 2005 to $3.8 million in the six months ended June 30, 2006. Approximately $0.2 million of this increase was attributable to stock-based compensation expense as a result of implementation of SFAS 123R. The remainder of the increase is due to development efforts taking place at SimpleDevices and increased spending on the development of audio-video accessories for sale in our retail channel. Partially offsetting these increases was less spending on the Nevo® platform. We expect research and development expense to range from $7.0 and $8.0 million for the full year 2006.

Selling, general and administrative expenses increased 6% from $25.6 million in the six months ended June 30, 2005 to $27.1 million in the six months ended June 30, 2006. Approximately $1.2 million of this increase was attributable to stock-based compensation expense, $1.1 million to payroll and benefits, $0.5 million to employee bonus expense, $0.4 million to travel and meals, $0.3 million to advertising, and $0.2 million to telephone and data communications costs. These items were partially offset by a reduction in bad debt expense, which decreased by $2.1 million, primarily due to the $1.6 million write-down of a receivable due from a former European distributor in the second quarter of 2005. In addition, the weakening of the Euro compared to the U.S. Dollar resulted in a decrease of approximately $0.5 million. We expect that selling, general, and administrative expenses will range from $56 to $58 million for the full year 2006.

In the six months ended June 30, 2006, we recorded $0.6 million of net interest income compared to $0.4 million during the six months ended June 30, 2005. This increase was due to higher money market rates and a higher average cash balance in Europe. We expect this trend to continue throughout 2006.

For the six months ended June 30, 2006, net other expense was $0.6 million as compared to $2.2 million of net other income for the six months ended June 30, 2005. Approximately $0.6 million of net other loss in the six months ended June 30, 2006 was the result of a foreign exchange loss, compared to a foreign exchange gain of $2.2 million for the six months ended June 30, 2005.

We recorded income tax expense of $2.7 million for the six months ended June 30, 2006 compared to $1.9 million for the six months ended June 30, 2005. Our effective tax rate was 36.9% during the six months ended June 30, 2006 compared to 35.3% during the six months ended June 30, 2005. The increase in the estimated effective tax rate was primarily due to unfavorable adjustments of approximately $150 thousand, including interest, that were identified during the audits of prior year tax returns that were conducted by both federal and state tax authorities.

SimpleDevices

SimpleDevices recorded net sales of $0.4 million and a pre-tax loss of $2.4 million during the six months ended June 30, 2006 compared to net sales of $0.7 million in sales and a pretax loss of $1.8 million for the six months ended June 30, 2005. Sales were down by $0.3 million as a result of focusing the activities of SimpleDevices on engineering services related to the development of hardware utilized by its customers to run the SimplePlatforms software as opposed to non-recurring engineering services work. Sales attributable to SimpleDevices are included in our Business category when we discuss consolidated results. The results of SimpleDevices have been included since the date of acquisition and are described below.

Gross loss for the six months ended June 30, 2006, was $27 thousand, or -7.6% of net sales, compared to gross profit of $73 thousand, or 11.2% of net sales for the same period last year. Gross profit was down due to the performance of less profitable development work and reduced revenues in the six months ended June 30, 2006.

Research and development expenses were $0.6 million for the six months ended June 30, 2006, compared to no research and development expense for the same period last year. Research and development expenses consisted primarily of internal and external development efforts related to SimpleDevices' core software product.

Selling, general and administrative expenses were $1.8 million for the six months ended June 30, 2006 compared to $1.8 million for the same period last year. Selling, general, and administrative expenses consisted primarily of engineering payroll and benefit costs as well as outside development costs.

We anticipate that sales generated as a result of software customization and engineering services will begin to decline as a percentage of total sales as software licensing fees and the associated maintenance fees begin to increase. We also anticipate that gross profit and gross profit as a percentage of net sales will increase as this shift occurs.

Liquidity and Capital Resources

	June 30, 2006	Increase	December 31, 2005
Cash and cash equivalents	$58,776	$15,135	$43,641
Working capital	90,406	13,205	77,201

	Six months ended June 30, 2006	Increase (decrease)	Six months ended June 30, 2005
Cash provided by operating activities	$11,298	$3,102	$ 8,196
Cash used for investing activities	(2,702)	(486)	(2,216)
Cash provided by (used for) financing activities	2,850	7,650	(4,800)
Effect of exchange rate changes	3,689	8,810	(5,121)

Our principal source of funds is from operations. Cash provided by operating activities for the first six months of 2006 was $11.3 million as compared to $8.2 million in the first six months of 2005. The increase in cash provided by operating activities for the six months ended June 30, 2006 compared to the six months ended June 30, 2005 was primarily driven by increased net sales of $20.7 million or 24% from $85.8 million for the six months ended June 30, 2005 compared to $106.5 million for the six months ended June 30, 2006. The increase in net sales contributed to net income increasing by approximately $1.2 million for the six months ended June 30, 2006 versus the six months ended June 30, 2005. Additionally, accounts payable and accrued expenses increased by $0.4 million during the six months ended June 30, 2006 versus a decline of $3.8 million during the six months ended June 30, 2005. These aforementioned amounts were partially offset by an increase in days sales outstanding (DSO) of approximately 73 days at June 30, 2006 versus 66 days at June 30, 2005. The increase in DSO is due primarily to extended payment terms being granted to certain high volume customers as well as a larger percentage of sales being made in the last month of the quarter in the second quarter 2006 versus the second quarter 2005.

Cash used for investing activities for the first six months of 2006 was $2.7 million as compared to $2.2 million for the first six months of 2005. The increase in cash used for investing activities was primarily due to the acquisition of fixed assets. Capital expenditures in the first six months of 2006 and 2005 were approximately $2.1 million and $1.7 million, respectively. These expenditures related primarily to the acquisition of product tooling. We are currently evaluating our existing and future information system requirements, and we may make a significant investment to upgrade our systems in 2006.

Cash provided by financing activities for the first six months of 2006 was $2.9 million as compared to cash used for financing activities of $4.8 million for the first six months of 2005. The increase in cash provided by financing activities was primarily due to a decrease in the amount of common stock repurchased in the open market. During the six months ended June 30, 2006, we repurchased 13,455 shares of our common stock at a cost of $0.2 million compared to the repurchase of 356,285 shares at a cost of $6.1 million for the six months ended June 30, 2005. In addition, proceeds from stock options exercised in the first six months of 2006 were approximately $3.1 million compared to $1.3 million for the first six months of 2005.

We hold repurchased shares as treasury stock, and they are available for reissue. Presently, except for using a small number of these treasury shares to compensate our outside board members, we have no plans to distribute these shares, although we may change these plans if necessary to fulfill our on-going business objectives. We have authority under the Credit Facility to acquire up to 1.5 million shares of our common stock in market purchases. From September 15, 2003, the date of execution of the Credit Facility, through June 30, 2006, we purchased 910,474 shares of our common stock leaving 589,526 remaining shares authorized for purchase under the Credit Facility. For the remainder of 2006, we may repurchase shares of our common stock if we believe conditions are favorable.

On September 15, 2003, we entered into a three-year $15.0 million unsecured revolving credit agreement (the “Credit Facility”) with Comerica Bank (“Comerica”). Under the Credit Facility, the interest payable is variable and is based on the bank’s cost of funds or the LIBOR rate plus a fixed margin of 1.25%. The interest rate in effect as of June 30, 2006 using the LIBOR Rate option plus a fixed margin of 1.25% was 6.60%. We pay a commitment fee ranging from zero to a maximum rate of 1/4 of 1% per year on the unused portion of the credit line depending on the amount of cash investment retained with Comerica during each quarter. Under the terms of the Credit Facility, dividend payments are allowed for up to 100% of the prior fiscal year’s net income, to be paid within 90 days of this period’s year end. We are subject to certain financial covenants related to our net worth, quick ratio, and net income. Amounts available for borrowing under the Credit Facility are reduced by the outstanding balance of import letters of credit. As of June 30, 2006, we did not have any amounts outstanding under the Credit Facility or any outstanding import letters of credit. Furthermore, as of June 30, 2006, we were in compliance with all financial covenants required by the Credit Facility. The Credit Facility will expire in September 2006, and we are currently negotiating an extension.

It is our policy to carefully monitor the state of our business, cash requirements and capital structure. We believe that funds generated from our operations and available from our borrowing facility will be sufficient to fund current business operations and anticipated growth at least over the next twelve months; however, there can be no assurance that such funds will be adequate for that purpose.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our Consolidated Financial Statements, which we have prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of our Board of Directors. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably likely to occur could materially impact the financial statements. Management believes that, other than the adoption of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), there have been no significant changes during the six months ended June 30, 2006 to the items that we disclosed as our critical accounting policies and estimates in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

Stock-Based Compensation Expense

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R, using the modified-prospective transition method. Under this transition method, compensation cost recognized in the three and six months ended June 30, 2006 includes: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based awards granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. We recognize these compensation costs net of estimated forfeitures and recognize the compensation costs for only those shares expected to vest on a straight-line basis over the service period of the award, which is generally the option vesting term of three to four years. In March 2005, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC's interpretation of SFAS 123R and the valuation of share-based compensation for public companies. We have applied the provisions of SAB 107 in our adoption of SFAS 123R.

Prior to January 1, 2006, we accounted for options granted under these plans using the recognition and measurement provisions of APB 25 and related interpretations, as permitted by SFAS 123. Under the intrinsic-value method of APB 25, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date over the amount an employee must pay to acquire the stock. We grant options with an exercise price equal to the market value of the common stock on the date of grant, therefore no compensation expense was recognized related to those options for the three and six months ended June 30, 2005.

During the three and six months ended June 30, 2006, we recorded $0.7 million and $1.4 million, respectively, in pre-tax stock-based compensation expense. The stock-based compensation was attributable to the following:

(In thousands)	Three months Ended, June 30, 2006	Six months Ended, June 30, 2006
Cost of sales	$ 6	$ 13
Research and development	94	199
Selling, general and administrative	571	1,229
Stock-based compensation expense before income taxes	$ 671	$ 1,441

The total amount of compensation expense related to non-vested awards not yet recognized as of June 30, 2006 was $5.1 million, which is expected to be recognized over a weighted-average life of 2.29 years.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the utilization of highly subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. Management determined that historical volatility calculated based on our actively traded common stock is a better indicator of expected volatility and future stock price trends than implied volatility. Therefore, expected volatility for the three and six months ended June 30, 2006 was based on historical volatility. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the amount of stock-based compensation expense could be significantly different from the amount recorded in the current period. Refer to the Note captioned "Stock-based Compensation" included in the "Notes to the Consolidated Financial Statements" set forth above for additional disclosure regarding stock-based compensation expense.

New Accounting Pronouncements

In June 2006, the FAS issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109," to clarify the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109. This Interpretation prescribes a recognition threshold and measurement criteria for the recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for years beginning after December 15, 2006. We are currently evaluating the effect that the adoption of FIN 48 will have on our consolidated results of operations and financial condition but do not expect this Interpretation to have a material impact.

In March 2006, the Task Force of the FASB issued EITF 06-3. EITF 06-3 provides guidance on the presentation of taxes remitted to governmental authorities on the income statement. The Task Forced reached the conclusion that the presentation of taxes on either gross (included in revenue and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to APB Opinion 22. Any such taxes that are reported on a gross basis should be disclosed if amounts are significant. EITF 06-3 is effective for years beginning after December 15, 2006. We record sales tax on a net basis. This is included in accrued sales tax and VAT.

Factors That May Affect Financial Condition And Future Results

Forward Looking Statements

We caution that the following important factors, among others (including but not limited to factors discussed below or above in the "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as those factors discussed in the 2005 Annual Report on Form 10-K, or in our other reports filed from time to time with the Securities and Exchange Commission), could affect our actual results and could contribute to or cause our actual consolidated results to differ materially from those expressed in any of our forward-looking statements. The factors included here are not exhaustive. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

New factors emerge from time to time, and it is not possible for us to predict all such factors, nor can we assess the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Therefore, forward-looking statements should not be relied upon as a prediction of actual future results.

While we believe that the forward looking statements made in this report are based on reasonable assumptions, the actual outcome of such statements is subject to a number of risks and uncertainties, including the failure of our markets to continue growing and expanding in the manner we anticipated; the failure of our customers to grow and expand as we anticipated; the effects of natural or other events beyond our control, including the effect of a war or terrorist activities on us or the economy; the economic environment's effect on us and our customers; the growth of, acceptance of and the demand for our products and technologies in various markets and geographical regions, including cable, satellite, consumer electronics, retail and interactive TV and home automation, not materializing as we believe; our inability to add profitable complementary products which are accepted by the marketplace; our inability to continue to maintain our operating costs at acceptable levels through our cost containment efforts; our inability to realize tax benefits from various tax projects initiated from time to time; our inability to maintain the strength of our balance sheet; our inability to continue selling our products or licensing our technologies at higher or profitable margins; the failure of the various markets and industries to grow or emerge as rapidly or as successfully as we believe; the lack of continued growth of our technologies and product lines addressing the market for digital media; our inability to obtain orders or maintain our order volume with new and existing customers; the possible dilutive effect our stock option program may have on our earnings per share and stock price; our inability to continue to obtain adequate quantities of component parts or secure adequate factory production capacity on a timely basis; the effect the Euro and other foreign currencies could have on our financial results; and other factors that may be listed from time to time in our press releases and filings with the Securities and Exchange Commission.

Outlook

Our focus is to build technology and products that make the consumer's interaction with devices and content within the home easier and more enjoyable. The pace of change in the home is increasing. The growth of new devices, such as DVD players, PVR/DVR technologies, HDTV, and home theater solutions, to name only a few, has transformed control of the home entertainment center into a complex challenge for the consumer. The more recent introduction and projected growth of digital media technologies in the consumer's life will further increase this complexity. We have set out to create the interface for the connected home, building a bridge between the home devices of today and the networked home of the future. We intend to invest in new products and technology, particularly in the connected home space, which will expand our business beyond the control of devices to the control of and access to content, such as digital media, to enrich the entertainment experience.

We will continue enhancing our leadership position in our core business by developing custom products for our subscription broadcasting, OEM, retail, and computing customers, growing our capture expertise in infrared technology and radio frequency standards, adding to our portfolio of patented or patent pending technologies and developing new platform products. We are also developing new ways to enhance remote controls and other accessory products.

During 2006, we will continue to develop new products featuring our Kameleon® interface technology, a display technology that provides ease of use by illuminating only the keys needed to control each entertainment device. We are continuing development of our Nevo® technology, an embedded solution that transforms an electronic display into a sophisticated and easy-to-use wireless home control and automation device. We are continuing to seek ways to integrate these platform technologies into other forms and devices. Nevo 2.0® was launched in July of 2004 as a feature on a series of HP's handheld devices, which reached its end of life during the third quarter of 2005. Building on this platform, we used some components of the Nevo 2.0® technology in a new product named NevoSL® which we began to ship in the second quarter of 2005. This product is designed for use in the home. In addition, we are working on product line extensions to our One For All® audio/video accessories which include digital antennas, signal boosters, television brackets and A/V cleaning products.

We are also seeking ways to increase our customer base worldwide, particularly in the areas of subscription broadcasting, OEM, and One For All® international retail. We will continue to work on strengthening existing relationships by working with customers to understand how to make the consumer interaction with products and services within the home easier and more enjoyable. We intend to invest in new products and technology to meet our customer needs now and into the future.

Through SimpleDevices, we will continue developing software and firmware solutions that can enable devices such as TVs, set-top boxes, stereos, automotive audio systems and other consumer electronic products to wirelessly connect and interact with home networks and interactive services to deliver digital entertainment and information. This “smart device” category is emerging, and in 2006 we look to build relationships with our customers in this category.

In 2006, we will continue to evaluate acceptable acquisition targets and strategic partnership opportunities in our core business lines as well as in the networked home marketplace. We caution, however, that no assurance can be made that any suitable acquisition target or partnership opportunity will be identified and, if identified, that a transaction can be consummated. Moreover, if consummated, no assurance can be made that any such acquisition or partnership will profitably add to our operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including interest rate and foreign currency exchange rate fluctuations. We have established policies, procedures and internal processes governing our management of these risks and the use of financial instruments to mitigate our risk exposure.

The interest payable under our revolving Credit Facility with our bank is variable and based on either (i) the bank’s cost of funds or (ii) the LIBOR rate plus a fixed margin of 1.25%; the rate is affected by changes in market interest rates. At June 30, 2006, we had no borrowings on our Credit Facility. The interest rate in effect on the Credit Facility as of June 30, 2006 using the LIBOR Rate option plus a fixed margin of 1.25% was 6.60%. The Credit Facility will expire in September 2006, and we are currently negotiating an extension.

At June 30, 2006 we had wholly owned subsidiaries in The Netherlands, United Kingdom, Germany, France, Argentina, Spain and Italy. Sales from these operations are typically denominated in local currencies including Euros, British Pounds and Argentine Pesos, thereby creating exposure to changes in exchange rates. Changes in local currency exchange rates relative to the U.S. Dollar and, in some cases, to each other, may positively or negatively affect our sales, gross margins and net income. From time to time, we enter into foreign currency exchange agreements to manage our exposure arising from fluctuating exchange rates that affect cash flows and our reported income. Contract terms for the foreign currency exchange agreements normally last less than nine months. We do not enter into any derivative transactions for speculative purposes.

The value of our net balance sheet positions held in foreign currency can also be impacted by fluctuating exchange rates, as can the value of the income generated by our European subsidiaries. It is difficult to estimate the impact of fluctuations on reported income, as it depends on the opening and closing rates, the average net balance sheet positions held in a foreign currency and the amount of income generated in local currency. We routinely forecast what these balance sheet positions and income generated in local currency may be, and we take steps to minimize exposure as we deem appropriate.

The sensitivity of earnings and cash flows to the variability in exchange rates is assessed by applying an approximate range of potential rate fluctuations to our assets, obligations and projected results of operations denominated in foreign currency. Based on our overall foreign currency rate exposure at June 30, 2006, we believe that movements in foreign currency rates could have a material affect on our financial position. We estimate that if the exchange rates for the Euro and the British Pound relative to the U.S. Dollar fluctuate 10% from June 30, 2006, third quarter net income and cash flows would fluctuate by approximately $0.4 million and $3.8 million, respectively.

ITEM 4. CONTROLS AND PROCEDURES

Exchange Act Rule 13a-15(c) defines “disclosure controls and procedures” to mean controls and procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms. The definition further states that disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

An evaluation was performed under the supervision and with the participation of our management, including our principal executive and principal financial officers, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this report, to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

We have concluded that a material weakness existed in our internal controls over financial reporting that affected prior periods. The weakness resulted in a failure to correctly state finished goods inventory at the lower-of-cost-or-market.

During our 2006 first quarter review of finished goods inventory, we determined that our control over inventory valuation was not properly designed as it did not account for changes in the pricing of conversion costs from our suppliers, and could result in a material misstatement if not corrected. Upon this discovery, we immediately modified our internal control process to correct this weakness in our internal controls over inventory and after our review of the 2006 second quarter, we have concluded that this weakness has been remediated as of June 30, 2006.

We have taken steps to improve our internal controls over accounting for inventory. These steps included the following items:

- a review and update of our standard conversion costs;
- the implementation of a more robust lower-of-cost-or-market calculation, to include conversion costs; and,
- a redesign of the internal audit testing procedures surrounding the lower-of-cost-or-market calculation.

There were no other changes in the Company’s internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are parties to lawsuits and claims arising in the normal course of our business.

In July 2006, we filed suit against Remote Technologies, Inc. (“RTI”) alleging that RTI has infringed certain of the our patents. RTI has not yet answered our complaint but it is expected that it will do so before September 30, 2006. We will seek a settlement of this matter, but if settlement is not possible, we intend to pursue this matter vigorously.

There are no other material pending legal proceedings nor any changes in any material pending legal matters previously disclosed other than litigation that is incidental to the ordinary course of our business, to which we or any of our subsidiaries is a party or of which our respective property is the subject. We do not believe that any of the claims made against us in any of the pending matters have merit and, except for the matters which we intend to seek settlement, we intend to vigorously defend ourselves against them, or, in the case in which we are plaintiff, to pursue them.

We maintain directors’ and officers’ liability insurance which insures our individual directors and officers against certain claims such as those alleged in the above lawsuits, as well as attorney’s fees and related expenses incurred in connection with the defense of such claims.

No Tax Shelter Penalty
No tax shelter penalty was assessed against us or any of our subsidiaries by the Internal Revenue Service (“IRS”), in fiscal year 2005, the fist or second quarter of this year, or at any other time, in connection with any transaction deemed by the IRS to be abusive or to have a significant tax avoidance purpose.

ITEM 1A. RISK FACTORS

For risk factors, see "Risk Factors" in Item 1A of Part 1, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, which is incorporated herein by reference.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the quarter ended June 30, 2006, we did not sell any equity securities that were not registered under the Securities Act of 1934.

We have authority under the Credit Facility to acquire up to 1.5 million shares of our common stock in market purchases. Between September 15, 2003, the date of execution of the Credit Facility, and June 30, 2006, we purchased 910,474 shares of our common stock leaving 589,526 remaining shares authorized for purchase under the Credit Facility. We repurchased 13,455 shares during the quarter ended June 30, 2006, and we may continue to repurchase shares of our common stock during the remainder of the year, if we believe conditions are favorable. Purchase information for the second quarter of 2006 is set forth by month in the following table:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2006 — April 30, 2006	0	0	N/A	N/A
May 1, 2006 — May 31, 2006	0	0	N/A	N/A
June 1, 2006 — June 30, 2006	13,455	16.47	N/A	N/A
Total Q2 2006	13,455	16.47	N/A	N/A

ISSUER PURCHASES OF EQUITY SECURITIES

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our Annual Meeting on June 13, 2006. The terms of all of our five directors expired at the meeting. Four of the directors were re-elected by the stockholders for the term indicated and one of the directors did not seek re-election. The stockholders also ratified the appointment of our independent registered public accounting firm, and approved the 2006 Stock Incentive Plan. Results of the voting were as follows:

Election of Directors:

Nominee	Term Expiring in	In Favor	Withheld
Paul D. Arling	2007	12,052,625	422,540
Bruce A. Henderson	2008	11,900,729	574,436
William C. Mulligan	2008	11,890,662	584,503
J.C. Sparkman	2008	11,893,354	581,811

Ratification of the appointment of Grant Thornton, as our independent registered public accounting firm for the year ending December 31, 2006:

In Favor	Opposed	Abstain
12,470,515	2,250	2,400

Approval of our 2006 Stock Incentive Plan:

In Favor	Opposed	Abstain
5,934,742	4,056,515	46,913

We have reserved and made available 1,000,000 shares of our common stock for issuance under the 2006 Stock Incentive Plan. As of June 30, 2006, no options or other award have been issued under the Plan.

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ITEM 6. EXHIBITS

31.1 Rule 13a-14(a) Certifications of Paul D. Arling, Chief Executive Officer of Universal Electronics Inc.

31.2 Rule 13a-14(a) Certifications of Bryan Hackworth, Chief Accounting Officer (principal financial officer) of Universal Electronics Inc.

32 Section 1350 Certifications of Paul D. Arling, Chief Executive Officer of Universal Electronics Inc., and Bryan Hackworth, Chief Accounting Officer (principal financial officer) of Universal Electronics Inc. pursuant to 18 U.S.C. Section 1350

SIGNATURE

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.

Date: August 9, 2006

Universal Electronics Inc.

/s/ Bryan Hackworth

Bryan Hackworth
Chief Accounting Officer
(principal financial officer)

EXHIBIT INDEX

Exhibit No	Description
31.1	Rule 13a-14(a) Certifications of Paul D. Arling, Chief Executive Officer of Universal Electronics Inc.
31.2	Rule 13a-14(a) Certifications of Bryan Hackworth, Chief Accounting Officer (principal financial officer) of Universal Electronics Inc.
32	Section 1350 Certifications of Paul D. Arling, Chief Executive Officer of Universal Electronics Inc., and Bryan Hackworth, Chief Accounting Officer of Universal Electronics Inc. pursuant to 18 U.S.C. Section 1350

Exhibit 31.1

Rule 13a-14(a) Certifications

I, Paul D. Arling, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Universal Electronics Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2006

/s/ Paul D. Arling

Paul D. Arling
Chief Executive Officer

Exhibit 31.2

Rule 13a-14(a) Certifications

I, Bryan Hackworth, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Universal Electronics Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2006

/s/ Bryan Hackworth

Bryan Hackworth
Chief Accounting Officer
(principal financial officer)

Exhibit 32

SECTION 1350 CERTIFICATIONS

Pursuant to 18 U.S.C. Section 1350, each of the undersigned officers of Universal Electronics Inc. (the “Company”), hereby certifies that the (i) Company’s Form 10-Q for the fiscal quarter ended June 30, 2006 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2006

By: /s/ Paul D. Arling
Chief Executive Officer

By: /s/ Bryan Hackworth
Chief Accounting Officer
(principal financial officer)

A signed original of this written statement has been provided to Universal Electronics Inc. and will be retained by it and furnished to the Securities and Exchange Commission or its staff upon request.