

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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from _____ to _____

Commission File Number: 0-21044

UNIVERSAL ELECTRONICS INC.

(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

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

Common Stock, par value \$.01 per share

(Title of Class)

Nasdaq Global Select Market

(Name of each exchange on which registered)

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

None

Indicate by check mark if whether the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act).

Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, any Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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

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

Large accelerated filer o

Accelerated filer

Non-accelerated filer o

Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes o No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2010, the last business day of the registrant's most recently completed third fiscal quarter was \$183,312,690 based upon the closing sale price as reported on the NASDAQ Global Select Market for that date.

On March 11, 2011, 14,980,213 shares of Common Stock, par value \$.01 per share, of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's notice of annual meeting of shareowners and proxy statement to be filed pursuant to Regulation 14A within 120 days after registrant's fiscal year end of December 31, 2010 are incorporated by reference into Part III of this Form 10-K. The Proxy Statement will be filed with the Securities and Exchange Commission no later than April 30, 2011.

Except as otherwise stated, the information contained in this Form 10-K is as of December 31, 2010.

Exhibit Index appears on page 95. This document contains 98 pages.

UNIVERSAL ELECTRONICS INC.
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2010

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Forward-Looking Statements

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

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

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

PART I

ITEM 1. BUSINESS

Business of Universal Electronics Inc.

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

Additional information regarding UEI may be obtained at www.uei.com.

Acquisition of Enson Assets Limited

On November 3, 2010, our subsidiary, UEI Hong Kong Private Limited, entered into a stock purchase agreement with CG International Holdings Limited to acquire all of the issued shares in the capital of Enson Assets Limited (“Enson”) for total consideration of approximately \$125.8 million. The consideration consisted of \$95.0 million in cash and 1,460,000 of newly issued shares of UEI common stock.

Enson is a leading manufacturer of remote controls. Prior to the acquisition, Enson was also one of our significant suppliers. During the years ended December 31, 2010, 2009 and 2008 Enson supplied 20.5%, 24.1% and 20.6% of our inventory purchases.

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The Enson corporate office, located in Hong Kong, is approximately 6,000 square feet and employs 50 people. Enson controls two factories located in the Peoples Republic of China (“PRC”).

The southern factory is located in Guang Dong Province, PRC within the city of Guang Zhou. The Guang Zhou factory is approximately 710,203 square feet and employs 787 people, with an additional 4,393 factory workers contracted through an agency agreement.

The northern factory is located in Jiang Su Province, PRC within the city of Yang Zhou. The Yang Zhou factory is approximately 1,204,697 square feet and employs 418 people, with an additional 4,502 factory workers contracted through an agency agreement.

Business Segment

Overview

Universal Electronics Inc. develops and manufactures a broad line of products, software, and technologies that are marketed to enhance home entertainment systems. Our offerings include the following:

- easy-to-use, pre-programmed universal infrared (“IR”) and radio frequency (“RF”) remote controls that are sold primarily to subscription broadcasting providers (cable and satellite), original equipment manufacturers (“OEMs”), consumers, internet protocol television (“IPTV”) providers, and private label customers;
- audio-video (“AV”) accessories sold to consumers;
- integrated circuits, on which our software and universal IR remote control database is embedded, sold primarily to OEMs, IPTV providers and private label customers;
- intellectual property which we license primarily to OEMs, software development companies, private label customers, and subscription broadcasting providers; and
- software, firmware and technology solutions that can enable devices such as TVs, set-top boxes, stereos, automotive audio systems, cell phones and other consumer electronic devices to wirelessly connect and interact with home networks and interactive services to deliver digital entertainment and information.

Our business is comprised of one reportable segment.

Principal Products and Markets

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

We provide subscription broadcasters and IPTV providers both domestically and internationally, with our universal remote control devices and integrated circuits, on which our software and IR code database is embedded, to support the demand associated with the deployment of digital set-top boxes that contain the latest technology and features. We also sell our universal remote control devices and integrated circuits, on which our software and IR code database is embedded, to OEMs that manufacture wirelessly controlled devices or digital set-top boxes.

For the years ended December 31, 2010, 2009, and 2008, our sales to DIRECTV and its sub-contractors collectively accounted for 13.7%, 21.1% and 19.3% of our net sales, respectively. Our sales to Comcast Communications, Inc. and its sub-contractors collectively accounted for 12.9%, 11.1% and 13.4% of our net sales for the years ended December 31, 2010, 2009 and 2008, respectively. No other single customer accounted for 10% or more of our net sales in 2010, 2009, or 2008.

We continue to pursue further penetration of the more traditional OEM consumer electronics markets. Customers in these markets generally package our wireless control devices for resale with their AV home entertainment products.

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Growth in this market has been driven by the proliferation and increasing complexity of home entertainment equipment, emerging digital technology, multimedia and interactive internet applications, and the increasing number of OEMs. On November 4, 2010, we acquired Enson Assets Limited (“Enson”) for total consideration of approximately \$125.8 million. This acquisition expanded the breadth and depth of our customer base in the OEM market, particularly in Asia.

We continue to place significant emphasis on expanding our sales and marketing efforts to subscription broadcasters and OEMs in Asia, Latin America and Europe. Our acquisition of Enson will enhance our ability to compete in the OEM and subscription broadcasting markets, particularly in Asia. In addition, during 2010 we opened a new subsidiary in Brazil, which will allow us to increase our reach and better compete in the Latin American subscription broadcast and IPTV markets. We will continue to add new sales and administrative people to support anticipated sales growth in these markets over the next few years.

In the international retail markets, our *One For All*® brand name remote control and accessories accounted for 12.4%, 12.6%, and 15.6% of our total net sales for the years ended December 31, 2010, 2009, and 2008, respectively. Throughout 2010, we continued our international retail sales and marketing efforts. Financial information relating to our international operations for the years ended December 31, 2010, 2009, and 2008 is included in “ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-Notes to Consolidated Financial Statements-Note 15”.

During the second quarter of 2008, we signed an agreement with Audiovox Accessories Corporation to be the exclusive supplier of embedded microcontrollers and infrared database software for Audiovox’s complete line of RCA universal remote controls sold in the North American retail market. We also agreed to develop remote controls in the future for existing brands in the Audiovox lineup and granted Audiovox an exclusive license to sell and distribute our *One For All*® brand remote controls and accessories in North America.

Intellectual Property and Technology

We hold a number of patents in the United States and abroad related to our products and technology, and have filed domestic and foreign applications for other patents that are pending. We had a total of 206 and 187 issued and pending United States patents at the end of 2010 and 2009, respectively. The increase in the number of issued and pending patents in the United States resulted from 32 new patent filings, offset by our abandonment of 4 patents and the expiration of 9 patents.

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

Since our beginning in 1986, we have compiled an extensive IR code library that covers over 508,000 individual device functions and over 4,200 individual consumer electronic equipment brand names. Our library is regularly updated with IR codes used in newly introduced AV devices. These IR codes are captured directly from the remote control devices or the manufacturer’s written specifications to ensure the accuracy and integrity of the database. We believe that our universal remote control database is capable of controlling virtually all IR controlled TVs, VCRs, DVD players, cable converters, CD players, audio components and satellite receivers, as well as most other infrared remote controlled home entertainment devices and home automation control modules worldwide.

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

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

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

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

UEI QuickSet is a firmware application that may be embedded on an AV device, such as a set-top box. UEI QuickSet enables universal remote control set-up using guided on-screen instructions and a wireless two-way communication link between the remote and the UEI QuickSet embedded AV equipment. UEI's XMP-2 technology, an extensible multimedia protocol, enables the two-way wireless communication between the universal remote control and the AV device, allowing IR code data and configuration settings to be sent to the remote control from the AV equipment. The user identifies the type and brand of the device to be controlled and then the UEI QuickSet application performs a test to confirm that the remote is controlling the equipment correctly. UEI QuickSet also saves the user-defined remote setting, enabling consumers to quickly transfer the setup configuration to a replacement remote. When the AV device has network connectivity, the IR code database and application may be continually updated to include the latest devices and functions.

During 2010, we released an upgrade to our UEI QuickSet application. The latest version of UEI QuickSet, version 1.5, utilizes data transmitted over HDMI to automatically detect a connected device and then determine and download the correct code into the remote control without the need for the user to enter in any additional information. The user does not need to know the model number or brand to setup the device in the remote. Any new device that is connected is recognized. Consumers can easily and quickly set-up their remotes to control multiple devices.

Also during 2010, we developed our Low Energy IR Engine ("LowEIR"). LowEIR uses a combination of silicon, hardware, and software to substantially reduce energy usage in IR remotes without sacrificing performance. With LowEIR, battery life may be extended by years on traditional two battery infrared remote control designs. LowEIR is compatible with all IR protocols and is especially efficient with our XMP® and XMP-2 protocols. Implementation does not require any modifications to the target device and is scalable to support a wide range of performance requirements. Because LowEIR requires less energy, and potentially fewer batteries, this may reduce waste and tariffs, making it both an environmentally friendly option for consumers and a financially sound solution for device manufacturers and system operators.

Our Universal Remote Application Programming Interface ("UAPI") is integrated into a remote and its target device, such as set-top box or television, allowing device manufacturers to extend existing remote control standards to deliver an enhanced consumer control experience. UAPI greatly reduces the time required to design and develop

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advanced, custom features that require synchronization between the remote and target device. UAPI enables support for a variety of new interface technologies, such as capacitive touch or optical finger navigation. In addition, UAPI has native support for the UEI QuickSet application which delivers simplified device setup experience. UAPI focuses on consumer-centric applications around the home theater experience and delivers a risk-free path for OEMs to develop solutions that extend the interface into the hands of the user.

Methods of Distribution

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

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

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

Our twenty-four international subsidiaries are the following:

- Universal Electronics B.V., established in the Netherlands;
- One For All GmbH, established in Germany;
- One for All Iberia S.L., established in Spain;
- One For All UK Ltd., established in the United Kingdom;
- One For All Argentina S.R.L., established in Argentina;
- One For All France S.A.S., established in France;
- Universal Electronics Italia S.R.L. established in Italy;
- UE Singapore Pte. Ltd., established in Singapore;
- UEI Hong Kong Pte. Ltd., established in Hong Kong
- UEI Electronics Pte. Ltd., established in India;
- UEI Cayman Inc., established in the Cayman Islands;
- Ultra Control Consumer Electronics GmbH, established in Germany;
- UEI Hong Kong Holdings Co. Pte. Ltd., established in Hong Kong;
- Universal Electronics (Shenzhen) LLC., established in the PRC;
- UEI Brasil Controles Remotos Ltda., established in Brazil;
- Enson Assets Ltd., established in the British Virgin Islands;
- C.G. Group Ltd., established in the British Virgin Islands;
- C.G. Development Ltd., established in Hong Kong;
- Gemstar Technology (China) Co. Ltd., established in the PRC;
- Gemstar Technology (Yang Zhou) Co. Ltd., established in the PRC;

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- C.G. Technology Ltd., established in Hong Kong;
- Gemstar Polyfirst Ltd., established in Hong Kong;
- C.G. Timepiece Ltd., established in Hong Kong;
- C.G. Asia Ltd., established in the British Virgin Islands.

Raw Materials and Dependence on Suppliers

We utilize our own manufacturing plants and third-party manufacturers and suppliers primarily located within the PRC to produce our wireless control products. In 2010, Computime and Samsung each provided more than 10% of our total inventory purchases. They collectively provided 34.2% of our total inventory purchases for 2010. In 2009 and 2008, Computime, C.G. Development, Samsung and Samjin each provided more than 10% of our total inventory purchases. They collectively provided 77.4% and 73.1% of our total inventory purchases for 2009 and 2008, respectively.

Even though we own and operate two factories in the PRC, we continue to evaluate additional contract manufacturers and sources of supply. During 2010, we utilized multiple contract manufacturers and maintained duplicate tooling for certain of our products. Where possible we utilize standard parts and components, which are available from multiple sources. We continually seek additional sources to reduce our dependence on our integrated circuit suppliers. To further manage our integrated circuit supplier dependence, we include flash microcontroller technology in most of our products. Flash microcontrollers can have shorter lead times than standard microcontrollers and may be reprogrammed, if necessary. This allows us flexibility during any unforeseen shipping delays and has the added benefit of potentially reducing excess and obsolete inventory exposure. This diversification lessens our dependence on any one supplier and allows us to negotiate more favorable terms.

Seasonality

Historically, our business has been influenced by the retail sales cycle, with increased sales in the last half of the year. We expect this pattern to be repeated during 2011.

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

Competition

Our principal competitors in the subscription broadcasting market are Philips Consumer Electronics, Universal Remote Control and Contec. In the international retail and private label markets for wireless controls we compete with Philips Consumer Electronics, Logitech, Ruwido and Sony, as well as various manufacturers of wireless controls in Asia. Our primary competitors in the OEM market are the original equipment manufacturers themselves and wireless control manufacturers in Asia. We compete against Universal Remote Control, Logitech, and Ruwido in the IR database market. Our North American retail products compete against Universal Remote Control, Philips Consumer Electronics, Logitech, Sony and many others. We compete in our markets on the basis of product quality, features, price, intellectual property and customer support. We believe that we will need to continue to introduce new and innovative products to remain competitive and to recruit and retain competent personnel to successfully accomplish our future objectives.

Engineering, Research and Development

During 2010, our engineering efforts focused on the following:

- broadening our product portfolio;
- modifying existing products and technologies to improve features and lower costs;
- formulating measures to protect our proprietary technology and general know-how;

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- improving our software so that we may pre-program more codes into our memory chips;
- simplifying the set-up and upgrade process for our wireless control products; and
- updating our library of IR codes to include IR codes for new features and devices introduced worldwide.

Our engineering efforts included the development of new remote controls that combine consumer friendly interfaces and intuitive setup with advance functions. These new products included our *One For All*® SmartControl and Dolphin™ remotes released during 2010. The *One For All*® SmartControl enables the user to control multiple devices without the need to switch between devices on the remote control. The *One For All*® SmartControl also leverages UEI SimpleSet technology and may be setup by simply identifying the target device type and brand. The Dolphin™ point-and-click, universal remote control addresses the connected and 3-D television markets. Equipped with advanced motion-detection technology, the ergonomic Dolphin controller enables fast, intuitive navigation through multiple menus, channels, or content selections by translating the user's natural hand movements into on-screen cursor movements.

During 2010, our engineering efforts also focused on developing solutions for our customers. These new products included our Universal Remote Application Programming Interface ("UAPI") and Low Energy IR Engine ("LowEIR"). UAPI is integrated into a remote and its target device, allowing device manufacturers to significantly reduce the time required to design and develop advanced, custom features that require synchronization between the remote and target device. UAPI enables support for a variety of new interface technologies, such as capacitive touch or optical finger navigation and has native support for the UEI QuickSet application which delivers simplified device setup experience. Our LowEIR uses a combination of silicon, hardware, and software to significantly reduce energy usage in IR remotes without sacrificing performance. Because LowEIR requires less energy, and potentially fewer batteries, this may reduce waste and tariffs, making it both an environmentally friendly option for consumers and a financially sound solution for device manufacturers and system operators.

We continued to improve our existing products during 2010. We released several software updates to our web based EZ-RC™ Remote Control Setup Wizard application. We also released an upgrade to our UEI QuickSet application during 2010. The latest version of UEI QuickSet, version 1.5, utilizes data transmitted over HDMI to automatically detect a connected device and then determine and download the correct code into the remote control without the need for the user to enter in any additional information.

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

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

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Our expenditures on engineering, research and development were:

(in millions):	2010	2009	2008
Research and development (1)	\$ 10.7	\$ 8.7	\$ 8.2
Engineering (2)	9.5	9.4	7.3
Total engineering, research and development	<u>\$ 20.2</u>	<u>\$ 18.1</u>	<u>\$ 15.5</u>

(1) Research and development expense for the years ended December 31, 2010, 2009, and 2008 includes \$0.5 million, \$0.4 million, and \$0.4 million of stock-based compensation expense, respectively.

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

Environmental Matters

Many of our products are subject to various federal, state, local and international laws governing chemical substances in products, including laws regulating the manufacture and distribution of chemical substances and laws restricting the presence of certain substances in electronics products. We may incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, third-party damages or personal injury claims, if we were to violate or become liable under environmental laws or if our products become non-compliant with environmental laws. We also face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the materials composition of our products.

We may also face significant costs and liabilities in connection with product take-back legislation. The European Union enacted the Waste Electrical and Electronic Equipment Directive (“WEEE”), which makes producers of electrical goods, including computers and printers, financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. During 2007, the majority of our European subsidiaries became WEEE compliant. Our Italian subsidiary became compliant in February 2008. Similar legislation has been or may be enacted in other jurisdictions, including in the United States, Canada, Mexico, PRC and Japan.

We believe that we have materially complied with all currently existing international and domestic federal, state and local statutes and regulations regarding environmental standards and occupational safety and health matters to which we are subject. During the years ended December 31, 2010, 2009 and 2008, the amounts incurred in complying with federal, state and local statutes and regulations pertaining to environmental standards and occupational safety and health laws and regulations did not materially affect our earnings or financial condition. However, future events, such as changes in existing laws and regulations or enforcement policies, may give rise to additional compliance costs that may have a material adverse effect upon our capital expenditures, earnings or financial condition.

Employees

At December 31, 2010, we employed 1,843 employees, of which 430 worked in engineering and research and development, 85 in sales and marketing, 118 in consumer service and support, 986 in operations and warehousing and 224 in executive and administrative functions.

On November 4, 2010, we acquired Enson Assets Limited. As a result of this transaction, we acquired 1,255 of our 1,843 employees, of which 157 worked in engineering and research and development, 17 in sales and marketing, 933 in operations and warehousing and 148 in executive and administrative functions. In addition, Enson has an additional 8,895 factory workers contracted through agency agreements.

None of our employees are subject to a collective bargaining agreement or represented by a union. We consider our employee relations to be good.

International Operations

Financial information relating to our international operations for the years ended December 31, 2010, 2009 and 2008 is incorporated by reference to “ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 15”.

Available Information

We make available free of charge through the website our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to these reports as soon as reasonably practical after we electronically file such reports with the Securities and Exchange Commission. These reports may be found on our website at www.uei.com under the caption "SEC Filings" on the Investor page. Investors may also obtain copies of our SEC filings from the SEC website at www.sec.gov.

Executive Officers of the Registrant⁽¹⁾

The following table sets forth certain information concerning our executive officers on March 16, 2011:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Paul D. Arling	48	Chairman of the Board and Chief Executive Officer
Paul J.M. Bennett	55	Executive Vice President, Managing Director, Europe
Mark S. Kopaskie	53	Executive Vice President, General Manager U.S. Operations
Richard A. Firehammer, Jr.	53	Senior Vice President, General Counsel and Secretary
Bryan M. Hackworth	41	Senior Vice President and Chief Financial Officer

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

Paul D. Arling is our Chairman and Chief Executive Officer. He joined us in May 1996 as Chief Financial Officer and was named to our Board of Directors in August 1996. He was appointed President and COO in September 1998, was promoted to Chief Executive Officer in October 2000 and appointed as Chairman in July 2001. At the 2010 Annual Meeting of Stockholders, Mr. Arling was re-elected as our Chairman to serve until the 2011 Annual Meeting of Stockholders. From 1993 through May 1996, he served in various capacities at LESCO, Inc. (a manufacturer and distributor of professional turf care products). Prior to LESCO, he worked for Imperial Wall coverings (a manufacturer and distributor of wall covering products) as Director of Planning, and The Michael Allen Company (a strategic management consulting company) where he was employed as a management consultant.

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

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

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

Bryan M. Hackworth is our Senior Vice President and Chief Financial Officer. He was promoted to Chief Financial Officer in August 2006. Mr. Hackworth joined us in June 2004 as Corporate Controller and subsequently assumed the role of Chief Accounting Officer in May 2006. Before joining us in 2004, he spent five years at Mars, Inc., a

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privately held international manufacturer and distributor of consumer products and served in several financial and strategic roles (Controller — Ice Cream Division; Strategic Planning Manager for the WHISKAS® Brand) and various other financial management positions. Prior to joining Mars Inc., Mr. Hackworth spent six years at Deloitte & Touche LLP as an auditor, specializing in the manufacturing and retail industries.

ITEM 1A. RISK FACTORS

Forward Looking Statements

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

While we believe that the forward-looking statements made in this report are based on reasonable assumptions, the actual outcome of such statements is subject to a number of risks and uncertainties, including the failure of our markets to continue growing and expanding in the manner we anticipated; the failure of our customers to grow and expand as we anticipated; the effects of natural or other events beyond our control, including the effects of political unrest, war or terrorist activities may have on us or the economy; the economic environment’s effect on us or our customers; the growth of, acceptance of and the demand for our products and technologies in various markets and geographical regions, including cable, satellite, consumer electronics, retail, digital media/technology, CEDIA, interactive TV, automotive, and cellular industries not materializing or growing as we believed; our inability to add profitable complementary products which are accepted by the marketplace; our inability to attract and retain quality workforce at adequate levels in all regions of the world, and particularly Asia; our inability to continue to maintain our operating costs at acceptable levels through our cost containment efforts; our inability to realize tax benefits from various tax projects initiated from time to time; our inability to continue selling our products or licensing our technologies at higher or profitable margins; our inability to obtain orders or maintain our order volume with new and existing customers; the possible dilutive effect our stock incentive programs may have on our earnings per share and stock price; our inability to continue to obtain adequate quantities of component parts or secure adequate factory production capacity on a timely basis; and other factors listed from time to time in our press releases and filings with the Securities and Exchange Commission.

Risks Related to Doing Business in the PRC

Changes in the policies of the PRC government may have a significant impact upon the business we may be able to conduct in the PRC and the profitability of such business.

Our business operations may be adversely affected by the current and future political environment in the PRC. The PRC has operated as a socialist state since the mid-1900s and is controlled by the PRC’s Communist Party. The Chinese government exerts substantial influence and control over the manner in which we must conduct our business activities. The PRC has only permitted provincial and local economic autonomy and private economic activities since 1988. The government of the PRC has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy, through regulation and state ownership. Our ability to operate in the PRC may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, labor and social insurance, import and export tariffs, raw materials, environmental regulations, land use rights,

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property and other matters. Under current leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of the PRC will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

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

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

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

The PRC laws and regulations governing our current business operations are sometimes vague and uncertain. The PRC's legal system is a civil law system based on written statutes, in which decided legal cases have little value as precedents unlike the common law system prevalent in the United States. There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to the laws and regulations governing our business, or the enforcement and performance of our arrangements with customers in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. The Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, labor and social insurance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. We are considered a foreign person or foreign funded enterprise under PRC laws, and as a result, we are required to comply with PRC laws and regulations. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our businesses. If the relevant authorities find that we are in violation of PRC laws or regulations, they would have broad discretion in dealing with such a violation, including, without limitation:

- levying fines;
- revoking our business and other licenses;
- requiring that we restructure our ownership or operations; and
- requiring that we discontinue any portion or all of our business.

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

On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Chinese Yuan Renminbi to the U.S. dollar. Under the new policy, the Chinese Yuan Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 23.1% appreciation of the Chinese Yuan Renminbi against the U.S. dollar as of December 31, 2010. While the international reaction to the Chinese Yuan Renminbi revaluation has generally been positive, there

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remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Chinese Yuan Renminbi against the U.S. dollar.

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

The PRC legal and judicial system may negatively impact foreign investors. In 1982, the National People's Congress amended the Constitution of the PRC to authorize foreign investment and guarantee the "lawful rights and interests" of foreign investors in the PRC. However, the PRC's system of laws is not yet comprehensive. The legal and judicial systems in the PRC are still rudimentary, and enforcement of existing laws is inconsistent. The PRC judiciary is relatively inexperienced in enforcing the laws that do exist, resulting in judicial decision-making that is more uncertain than would be expected in a more developed country. It may be impossible to obtain swift and equitable enforcement of laws that do exist, or to obtain enforcement of the judgment of one court by a court of another jurisdiction. The PRC's legal system is based on the civil law regime, that is, it is based on written statutes; a decision by one judge does not set a legal precedent that is required to be followed by judges in other cases. In addition, the interpretation of Chinese laws may be varied to reflect domestic political changes.

The promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign investors. However, the trend of legislation over the last 20 years has significantly enhanced the protection of foreign investment and allowed for more control by foreign parties of their investments in Chinese enterprises. There can be no assurance that a change in leadership, social or political disruption, or unforeseen circumstances affecting the PRC's political, economic or social life, will not affect the PRC government's ability to continue to support and pursue these reforms. Such a shift may have a material adverse effect on our business and prospects.

The practical effect of the PRC legal system on our business operations in the PRC may be viewed from two separate but intertwined considerations. First, as a matter of substantive law, the Foreign Invested Enterprise laws provide significant protection from government interference. In addition, these laws guarantee the full enjoyment of the benefits of corporate Articles and contracts to Foreign Invested Enterprise participants. These laws, however, do impose standards concerning corporate formation and governance, which are qualitatively different from the general corporation laws of the United States. Similarly, the PRC accounting laws mandate accounting practices, which are not consistent with U.S. generally accepted accounting principles. PRC's accounting laws require that an annual "statutory audit" be performed in accordance with PRC accounting standards and that the books of account of Foreign Invested Enterprises are maintained in accordance with Chinese accounting laws. Article 14 of the People's Republic of China Wholly Foreign-Owned Enterprise Law requires a wholly foreign-owned enterprise to submit certain periodic fiscal reports and statements to designated financial and tax authorities, at the risk of business license revocation. While the enforcement of substantive rights may appear less clear than United States procedures, the Foreign Invested Enterprises and Wholly Foreign-Owned Enterprises are Chinese registered companies, which enjoy the same status as other Chinese registered companies in business-to-business dispute resolution. Any award rendered by an arbitration tribunal is enforceable in accordance with the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958). Therefore, as a practical matter, although no assurances can be given, the Chinese legal infrastructure, while different in operation from its United States counterpart, should not present any significant impediment to the operation of Foreign Invested Enterprises.

Availability of adequate workforce levels

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

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Expansion in the PRC

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

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

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

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

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

Potential deferment of purchases and orders by customers

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

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

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

Potential impact on trade receivables

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

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

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

Negative impact from increased financial pressures on key suppliers

Our ability to meet customers' demands depends, in part, on our ability to obtain timely and adequate delivery of quality materials, parts and components from our suppliers. Certain of our components are available only from a single source or limited sources. If certain key suppliers were to become capacity constrained or insolvent as a result of the financial crisis, it may result in a reduction or interruption in supplies or a significant increase in the price of supplies and adversely impact our financial results. In addition, credit constraints at key suppliers may result in accelerated payment of accounts payable by us, impacting our cash flow.

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Dependence upon Key Suppliers

During 2010, Computime and Samsung each provided over 10% of our total inventory purchases. Purchases from these suppliers collectively amounted to \$67.0 million, or 34.2%, of our total inventory purchases in 2010. During 2009 and 2008, Computime, C.G. Development, Samsung, and Samjin each provided over 10% of our total inventory purchases. Purchases from these suppliers collectively amounted to \$147.8 million, or 77.4%, of our total inventory purchases in 2009. Purchases from these suppliers collectively amounted to \$135.5 million, or 73.1%, of total inventory purchases during 2008.

Most of the components used in our products are available from multiple sources. However, we have elected to purchase integrated circuits, used principally in our wireless control products, from primarily three sources. To reduce our dependence on our integrated circuits suppliers we continually seek additional sources. We generally maintain inventories of our integrated circuits, which may be used in part to mitigate, but not eliminate, delays resulting from supply interruptions.

We have identified alternative sources of supply for our integrated circuit, component parts, and finished goods needs; however, there can be no assurance that we will be able to continue to obtain these inventory purchases on a timely basis. Any extended interruption, shortage or termination in the supply of any of the components used in our products, or a reduction in their quality or reliability, or a significant increase in prices of components, would have an adverse effect on our operating results, financial position and cash flows.

Dependence on Foreign Manufacturing

Even after our acquisition of the factories in the PRC, third-party manufacturers located in the PRC will continue to manufacture a majority of our products. Our arrangements with these foreign manufacturers are subject to the risks of doing business abroad, such as tariffs, environmental and trade restrictions, intellectual property protection and enforcement, export license requirements, work stoppages, political and social instability, economic and labor conditions, foreign currency exchange rate fluctuations, and other factors, which may have a material adverse effect on our business, results of operations and cash flows. We believe that the loss of any one or more of our manufacturers would not have a long-term material adverse effect on our business, results of operations and cash flows, because numerous other manufacturers are available to fulfill our requirements; however, the loss of any of our major manufacturers may adversely affect our business, operating results, financial condition and cash flows until alternative manufacturing arrangements are secured.

Potential Fluctuations in Quarterly Results

We may from time to time increase our operating expenses to fund greater levels of research and development, sales and marketing activities, development of new distribution channels, improvements in our operational and financial systems and development of our customer support capabilities, and to support our efforts to comply with various government regulations. To the extent such expenses precede or are not subsequently followed by increased revenues, our business, operating results, financial condition and cash flows will be adversely affected.

In addition, we may experience significant fluctuations in future quarterly operating results that may be caused by many other factors, including demand for our products, introduction or enhancement of products by us and our competitors, the loss or acquisition of any significant customers, market acceptance of new products, price reductions by us or our competitors, mix of distribution channels through which our products are sold, product or supply constraints, level of product returns, mix of customers and products sold, component pricing, mix of international and domestic revenues, foreign currency exchange rate fluctuations and general economic conditions. In addition, as a strategic response to changes in the competitive environment, we may from time to time make certain pricing or marketing decisions or acquisitions that may have a material adverse effect on our business, results of operations or financial condition. As a result, we believe period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as an indication of future performance.

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Due to all of the foregoing factors, it is possible that in some future quarters our operating results will be below the expectations of public market analysts and investors. If this happens the price of our common stock may be materially adversely affected.

Dependence on Consumer Preference

We are susceptible to fluctuations in our business based upon consumer demand for our products. In addition, we cannot guarantee that increases in demand for our products associated with increases in the deployment of new technology will continue. We believe that our success depends on our ability to anticipate, gauge and respond to fluctuations in consumer preferences. However, it is impossible to predict with complete accuracy the occurrence and effect of fluctuations in consumer demand over a product's life cycle. Moreover, we caution that any growth in revenues that we achieve may be transitory and should not be relied upon as an indication of future performance.

Demand for Consumer Service and Support

We have continually provided domestic and international consumer service and support to our customers to add overall value and to help differentiate us from our competitors. We continually review our service and support group and are marketing our expertise in this area to other potential customers. There can be no assurance that we will be able to attract new customers in the future.

In addition, certain of our products have more features and are more complex than others and therefore require more end-user technical support. In some instances, we rely on distributors or dealers to provide the initial level of technical support to the end-users. We provide the second level of technical support for bug fixes and other issues at no additional charge. Therefore, as the mix of our products includes more of these complex product lines, support costs may increase, which may have an adverse effect on our business, operating results, financial condition and cash flows.

Dependence upon New Product Introduction

Our ability to remain competitive in the wireless control and AV accessory products market will depend considerably upon our ability to successfully identify new product opportunities, as well as develop and introduce these products and enhancements on a timely and cost effective basis. There can be no assurance that we will be successful at developing and marketing new products or enhancing our existing products, or that these new or enhanced products will achieve consumer acceptance and, if achieved, will sustain that acceptance. In addition, there can be no assurance that products developed by others will not render our products non-competitive or obsolete or that we will be able to obtain or maintain the rights to use proprietary technologies developed by others which are incorporated in our products. Any failure to anticipate or respond adequately to technological developments and customer requirements, or any significant delays in product development or introduction, may have a material adverse effect on our operating results, financial condition and cash flows.

In addition, the introduction of new products may require significant expenditures for research and development, tooling, manufacturing processes, inventory and marketing. In order to achieve high volume production of any new product, we may have to make substantial investments in inventory and expand our production capabilities.

Dependence on Major Customers

The economic strength and weakness of our worldwide customers affect our performance. We sell our wireless control products, AV accessory products, and proprietary technologies to subscription broadcasters, original equipment manufacturers, and private label customers. We also supply our products to our wholly owned, non-U.S. subsidiaries and to independent foreign distributors, who in turn distribute our products worldwide, with Europe and Asia currently representing our principal foreign markets.

In each of the years ended December 31, 2010, 2009 and 2008, we had sales to DIRECTV and its sub-contractors and to Comcast Communications Inc. and its sub-contractors, that when combined, each exceeded 10% of our net

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sales. The loss of either of these customers or of any other key customer, either in the United States or abroad or our inability to maintain order volume with these customers, may have an adverse effect on our operating results, financial condition and cash flows.

Change in Warranty Claim Costs

We rely on third-party companies to service a large portion of our customer warranty claims. If the cost to service these warranty claims increases unexpectedly, or these outside services cease to be available, we may be required to increase our estimate of future claim costs, which may have a material adverse effect on our operating results, financial condition and cash flows.

Outsourced Labor

We employ a small number of personnel to develop and market additional products that are part of the Nevo® platform as well as products that are based on the Zigbee®, Z-Wave® and other radio frequency technology. Even after these hires, we continue to use outside resources to assist us in the development of these products. While we believe that such outside services will continue to be available to us, if they cease to be available, the development of these products may be substantially delayed, which may have a material adverse effect on our operating results, financial condition and cash flows.

Competition

The wireless control industry is characterized by intense competition based primarily on product availability, price, speed of delivery, ability to tailor specific solutions to customer needs, quality, and depth of product lines. Our competition is fragmented across our products, and, accordingly, we do not compete with any one company across all product lines. We compete with a variety of entities, some of which have greater financial resources. Our ability to remain competitive in this industry depends in part on our ability to successfully identify new product opportunities, develop and introduce new products and enhancements on a timely and cost effective basis, as well as our ability to successfully identify and enter into strategic alliances with entities doing business within the industries we serve. There can be no assurance that our product offerings will be, and/or remain, competitive or that strategic alliances, if any, will achieve the type, extent, and amount of success or business that we expect them to achieve. The sales of our products and technology may not occur or grow in the manner we expect, and thus we may not recoup costs incurred in the research and development of these products as quickly as we expect, if at all.

Patents, Trademarks, and Copyrights

The procedures by which we identify, document and file for patent, trademark, and copyright protection are based solely on engineering and management judgment, with no assurance that a specific filing will be issued, or if issued, will deliver any lasting value to us. Because of the rapid innovation of products and technologies that is characteristic of our industry, there can be no assurance that rights granted under any patent will provide competitive advantages to us or will be adequate to safeguard and maintain our proprietary rights. Moreover, the laws of certain countries in which our products are or may be manufactured or sold may not offer protection on such products and associated intellectual property to the same extent that the United States legal system may offer.

In our opinion, our intellectual property holdings as well as our engineering, production, and marketing skills and the experience of our personnel are of equal importance to our market position. We further believe that none of our businesses are materially dependent upon any single patent, copyright, trademark, or trade secret.

Some of our products include or use technology and/or components of third parties. While it may be necessary in the future to seek or renew licenses relating to various aspects of such products, we believe that, based upon past experience and industry practice, such licenses generally may be obtained on commercially reasonable terms; however, there can be no guarantee that such licenses may be obtained on such terms or at all. Because of technological changes in the wireless and home control industry, current extensive patent coverage, and the rapid

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rate of issuance of new patents, it is possible certain components of our products and business methods may unknowingly infringe upon the patents of others.

Potential for Litigation

As is typical in our industry and for the nature and kind of business in which we are engaged, from time to time various claims, charges and litigation are asserted or commenced by third parties against us or by us against third parties, arising from or related to product liability, infringement of patent or other intellectual property rights, breach of warranty, contractual relations or employee relations. The amounts claimed may be substantial, but they may not bear any reasonable relationship to the merits of the claims or the extent of any real risk of court awards assessed against us or in our favor.

Risks of Conducting Business Internationally

Risks of doing business internationally may adversely affect our sales, operations, earnings and cash flows due to a variety of factors, including, but not limited to:

- changes in a country or region's economic or political conditions, including inflation, recession, interest rate fluctuations, forced political actions or elections, coups, and actual or anticipated military conflicts;
- currency fluctuations affecting sales, particularly in the Euro, British Pound, and the Chinese Yuan Renminbi which contribute to variations in sales of products and services in impacted jurisdictions and also affect our reported results expressed in U.S. dollars;
- currency fluctuations affecting costs, particularly the Euro, British Pound and the Chinese Yuan Renminbi, which contribute to variances in costs in impacted jurisdictions and also affect our reported results expressed in U.S. dollars;
- longer accounts receivable cycles and financial instability among customers;
- trade regulations and procedures and actions affecting production, pricing and marketing of products;
- local labor conditions, customs, and regulations;
- changes in the regulatory or legal environment;
- differing technology standards or customer requirements;
- import, export or other business licensing requirements or requirements related to making foreign direct investments, which may affect our ability to obtain favorable terms for components or lead to penalties or restrictions;
- difficulties associated with repatriating cash generated or held abroad in a tax-efficient manner and changes in tax laws; and
- fluctuations in freight costs and disruptions at important geographic points of exit and entry.

Effectiveness of Our Internal Control Over Financial Reporting

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include in our Annual Report on Form 10-K our assessment of the effectiveness of our internal control over financial reporting. Furthermore, our independent registered public accounting firm is required to audit our internal control over financial reporting and separately report on whether it believes we maintain, in all material respects, effective internal control over financial reporting. Although we believe that we currently have adequate internal control procedures in place, we cannot be

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certain that future material changes to our internal control over financial reporting will be effective. If we cannot adequately maintain the effectiveness of our internal control over financial reporting, we may be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission. Any such action may adversely affect our financial results and the market price of our common stock.

Changes in Generally Accepted Accounting Principles

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles. These principles are subject to revision and interpretation by various governing bodies, including the FASB and the SEC. A change in current accounting standards or their interpretation may have a significant adverse effect on our operating results, financial condition and cash flows.

Unanticipated Changes in Tax Provisions or Income Tax Liabilities

We are subject to income taxes in the United States and numerous foreign jurisdictions. Our tax liabilities are affected by the amounts we charge for inventory and other items in intercompany transactions. From time to time, we are subject to tax audits in various jurisdictions. Tax authorities may disagree with our intercompany charges or other matters and assess additional taxes. We assess the likely outcomes of these audits in order to determine the appropriateness of the tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the actual outcomes of these audits may have a material impact on our financial condition, results of operations and cash flows. In addition, our effective tax rate in the future may be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws and the discovery of new information in the course of our tax return preparation process. Furthermore, our tax provisions may be adversely affected as a result of any new interpretative accounting guidance related to accounting for uncertain tax positions.

Inability to Use Deferred Tax Assets

We have deferred tax assets that we may not be able to use under certain circumstances. If we are unable to generate sufficient future taxable income in certain jurisdictions, or if there is a significant change in the actual effective tax rates or a significant change in the time period within which the underlying temporary differences become taxable or deductible, we may be required to increase our valuation allowances against our deferred tax assets resulting in an increase in our effective tax rate.

Environmental Matters

Many of our products are subject to various federal, state, local and international laws governing chemical substances in products, including laws regulating the manufacture and distribution of chemical substances and laws restricting the presence of certain substances in electronics products. With the passage of the European Union's Restriction of Hazardous Substances Directive, which makes producers of electrical goods responsible for collection, recycling, treatment and disposal of recovered products, similar restrictions in the PRC effective March 2007 and the European Union's Waste Electrical and Electronic Equipment Directive, we may face significant costs and liabilities in complying with these laws and any future laws and regulations or enforcement policies that may have a material adverse effect upon our operating results, financial condition, and cash flows.

Leased Property

We lease all of the properties used in our business. We can give no assurance that we will enter into new or renewal leases, or that, if entered into, the new lease terms will be similar to the existing terms or that the terms of any such new or renewal leases will not have a significant and material adverse effect on our operating results, financial condition and cash flows.

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Technology Changes in Wireless Control

We currently derive substantial revenue from the sale of wireless remote controls based on IR technology. Other control technologies exist or may be developed that may compete with IR. In addition, we develop and maintain our own database of IR and RF codes. There are competing IR and RF libraries offered by companies that we compete with in the marketplace. The advantage that we may have compared to our competitors is difficult to measure. If other wireless control technology gains acceptance and starts to be integrated into home electronics devices currently controlled through our IR remote controllers, demand for our products may decrease, resulting in decreased operating results, financial condition, and cash flows.

Failure to Recruit, Hire, and Retain Key Personnel

Our ability to achieve growth in the future will depend, in part, on our success at recruiting, hiring, and retaining highly skilled engineering, managerial, operational, sales and marketing personnel. Our corporate office, including our advanced technology engineering group, is based in Southern California. The high cost of living in Southern California makes it difficult to attract talent from outside the region and may also put pressure on overall employment related expense. Additionally, our competitors seek to recruit and hire the same key personnel. Therefore, if we fail to stay competitive in salary and benefits within the industry it may negatively impact our ability to hire and retain key personnel. The inability to recruit, hire, and retain qualified personnel in a timely manner, or the loss of any key personnel, may make it difficult to meet key objectives, such as timely and effective product introductions.

Change in Competition and Pricing

Even after our recent acquisition of the PRC factories, we will continue to rely on third-party manufacturers to build our universal wireless control products. Price is always an issue in winning and retaining business. If customers become increasingly price sensitive, new competition may arise from manufacturers who decide to go into direct competition with us or from current competitors who perform their own manufacturing. If such a trend develops, we may experience downward pressure on our pricing or lose sales, which may have a material adverse effect on our operating results, financial condition and cash flows.

Transportation Costs; Impact of Oil Prices

We ship products from our foreign manufacturers via ocean and air transport. It is sometimes difficult to forecast swings in demand or delays in production and, as a result, products may be shipped via air which is more costly than ocean shipments. We typically cannot recover the increased cost of air freight from our customers. Additionally, tariffs and other export fees may be incurred to ship products from foreign manufacturers to the customer. The inability to predict swings in demand or delays in production may increase the cost of freight which may have a material adverse effect on our product margins.

In addition, we have an exposure to oil prices due to the use of oil-based materials in our products, which are primarily the plastics and other components that we include in our finished products, the cost of delivery and freight, which would be passed on by the carriers that we use in the form of higher rates, political unrest in oil producing countries that could cause a cessation of production and/or delivery of oil resulting in higher costs. We record freight-in as a cost of sales and freight-out in operating expenses. Rising oil prices may have an adverse effect on cost of sales and operating expenses.

Proprietary Technologies

We produce highly complex products that incorporate leading-edge technology, including hardware, firmware, and software. Firmware and software may contain bugs that may unexpectedly interfere with product operation. There can be no assurance that our testing programs will detect all defects in individual products or defects that may affect numerous shipments. The presence of defects may harm customer satisfaction, reduce sales opportunities, or increase returns. An inability to cure or repair such a defect may result in the failure of a product line, temporary or

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permanent withdrawal from a product or market, damage to our reputation, increased inventory costs, or product reengineering expenses, any of which may have a material impact on our operating results, financial condition and cash flows.

Strategic Business Transactions

We may, from time to time, pursue strategic alliances, joint ventures, business acquisitions, products or technologies (“strategic business transactions”) that complement or expand our existing operations, including those that may be material in size and scope. Strategic business transactions involve many risks, including the diversion of management’s attention away from day-to-day operations. There is also the risk that we will not be able to successfully integrate the strategic business transaction with our operations, personnel, customer base, products or technologies. Such strategic business transactions may also have adverse short-term effects on our operating results, and may result in dilutive issuances of equity securities, the incurrence of debt, and the loss of key employees. In addition, these strategic business transactions are generally subject to specific accounting guidelines that may adversely affect our financial condition, results of operations and cash flow. For instance, business acquisitions must be accounted for as purchases and, because most technology-related acquisitions involve the purchase of significant intangible assets, these acquisitions typically result in substantial amortization charges, which may have a material adverse effect on our results of operations. There can be no assurance that any such strategic business transactions will occur or, if such transactions do occur, that the integration will be successful or that the customer bases, products or technologies will generate sufficient revenue to offset the associated costs or effects.

Growth Projections

Management has made the projections required for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America regarding future events and the financial performance of the company, including those involving:

- the benefits the company expects as a result of the development and success of products and technologies, including new products and technologies;
- the benefits expected by entering into emerging markets such as Asia and Brazil, without which, we may not be able to recover the costs we incur to enter into such markets;
- the recently announced new contracts with new and existing customers and new market penetrations;
- the growth expected as a result of the digital from analog conversion;
- the expected continued growth in digital TVs, PVRs and overall growth in the company’s industry; and
- the effects we may experience due to the continued softness in worldwide markets driven by the current economic environment.

Actual events or results may be unfavorable to management’s projections, which may have a material adverse effect on our projected operating results, financial condition and cash flows.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no unresolved staff comments on the filing date of this Form 10-K.

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ITEM 2. PROPERTIES

Our global headquarters is located in Cypress, California. We utilize the following office facilities:

<u>Location</u>	<u>Purpose or Use</u>	<u>Square Feet</u>	<u>Status</u>
Cypress, California	Corporate headquarters, engineering, research and development	34,080	Leased, expires January 31, 2012
Twinsburg, Ohio	Call center	21,509	Leased, expires May 31, 2014
Enschede, Netherlands	European headquarters and call center	18,292	Leased, expires September 30, 2013
Bangalore, India	Engineering, research and development	17,713	Leased, expired January 31, 2011
Shenzhen, PRC	Engineering, quality assurance, research and development	6,127	Leased, expires February 15, 2013
San Mateo, California	Engineering, research and development	4,868	Leased, expires June 30, 2011
Hong Kong, China	Operations and administrative services	3,060	Leased, expires November 15, 2011
Hong Kong, China	Asian headquarters	6,000	Leased, expires on January 14, 2012
Guang Zhou, China ⁽¹⁾	Manufacturing facility	710,203	Land leased, expires June 30, 2044
Yang Zhou, PRC ⁽¹⁾	Manufacturing facility	1,204,697	Land leased, expires July 31, 2055
Manaus, Brazil	Manufacturing facility under development	2,153	Leased, expires September 14, 2013

(1) Private ownership of land in the PRC is not allowed. All land in the PRC is owned by the government and cannot be sold to any individual or entity. These facilities were developed on land which we lease from the PRC government.

In addition to the facilities listed above, we lease space in various international locations, primarily for use as sales offices.

Our lease for the Bangalore office expired on January 31, 2011. We are negotiating a renewal. In addition, our lease for the San Mateo office expires on June 30, 2011. We are currently investigating alternative facilities. We believe we will obtain lease agreements under similar terms, however there can be no assurance that we will receive similar terms or that any offer to renew will be accepted.

See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 12" for additional information regarding our obligations under leases.

ITEM 3. LEGAL PROCEEDINGS

We are subject to lawsuits arising out of the conduct of our business. The discussion of our litigation matters in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 13" is incorporated by reference.

ITEM 4. RESERVED

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the NASDAQ Global Select Market under the symbol UEIC. The closing price of our common stock as reported by NASDAQ on March 11, 2011 was \$26.49. Our stockholders of record on March 11, 2011 numbered 131. We have never paid cash dividends on our common stock, nor do we currently intend to pay any cash dividends on our common stock in the foreseeable future. We intend to retain our earnings, if any, for the future operation and expansion of our business.

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Recent Sales of Unregistered Securities

As part of the consideration paid by UEI for the acquisition of Enson Assets Limited, 1,460,000 newly issued shares of UEI common stock, par value \$.01 per share, were delivered to CG International Holdings Limited (“CGI”). The shares were issued in reliance upon an exemption from registration under the Securities Act, pursuant to Regulation S promulgated under the Securities Act. UEI and UEI Hong Kong Private Limited complied with the conditions of Rule 903 of Regulation S, including, but not limited to, the following: (i) CGI is not a U.S. person and was offered and sold its shares in accordance with the provisions of Regulation S; (ii) an appropriate legend is required to be affixed to the shares in accordance with Regulation S; (iii) CGI represented that it is not acquiring the shares for the account or benefit of a U.S. person; (iv) CGI agreed to resell the shares only in accordance with the provisions of Regulation S, pursuant to a registration statement under the Securities Act of 1933, as amended or pursuant to an available exemption from registration; and (v) CGI agreed not to engage in hedging activities involving UEI’s common stock. In the Stock Purchase Agreement among CGI, UEI and UEI Hong Kong Private Limited, CGI acknowledged that UEI will implement the restrictions on transfer contained in the Purchase Agreement, which preclude any transfer of the shares which is not made in accordance Regulation S, not registered under the Securities Act, or not made pursuant another available exemption.

The following table sets forth, for the periods indicated, the high and low sale prices for our common stock, as reported by NASDAQ:

	2010		2009	
	High	Low	High	Low
First Quarter	\$ 26.55	\$ 20.25	\$ 19.80	\$ 10.85
Second Quarter	23.90	16.49	22.50	17.27
Third Quarter	20.93	16.12	22.12	16.99
Fourth Quarter	30.27	20.04	24.07	19.80

Purchases of Equity Securities

The following table sets forth, for the fourth quarter, our total stock repurchases, average price paid per share and the maximum number of shares that may yet be purchased under our plans or programs:

Period	Total Number of Shares Purchased	Weighted 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
10/1/2010 — 10/31/2010	5,785	\$ 20.70	—	—
11/1/2010 — 11/30/2010	99	27.32	—	—
12/1/2010 — 12/31/2010	6,551	28.70	—	—
Total during fourth quarter	12,435	\$ 24.96	—	—

During the year ended December 31, 2010, we repurchased 505,692 shares of our issued and outstanding common stock for \$10.1 million under an ongoing and systematic program approved by our Board of Directors on February 11, 2010. We make stock repurchases to manage the dilution created by shares issued under our stock incentive plans or when we deem a repurchase is a good use of our cash and the price to be paid is at or below a threshold approved by our Board from time to time. On December 31, 2010, we had 526,874 shares available for repurchase under our current Board authorization.

Equity Compensation Plans

Information regarding our equity compensation plans, including both stockholder approved plans and plans not approved by stockholders, is incorporated by reference to “ITEM 12. SECURITY OWNERSHIP OF CERTAIN

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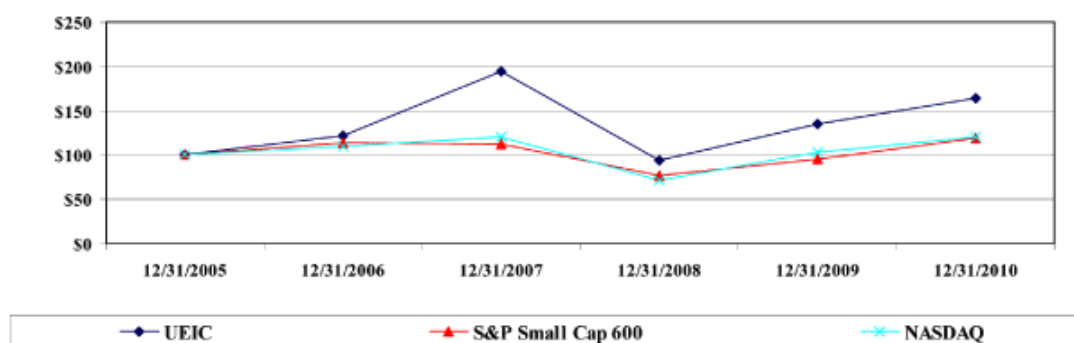
BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS” under the caption “Equity Compensation Plan Information” and “ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 16” under the caption “Stock-Based Compensation.”

Performance Chart

The following graph and table compares the cumulative total stockholder return with respect to our common stock versus the cumulative total return of the Standard & Poor’s Small Cap 600 (the “S&P Small Cap 600”) and the NASDAQ Composite Index for the five year period ended December 31, 2010. The comparison assumes that \$100 is invested on December 31, 2005 in each of our common stock, S&P Small Cap 600 and the NASDAQ Composite Index and that all dividends are reinvested. We have not paid any dividends and, therefore, our cumulative total return calculation is based solely upon stock price appreciation and not upon reinvestment of dividends. The graph and table depicts year-end values based on actual market value increases and decreases relative to the initial investment of \$100, based on information provided for each calendar year by the NASDAQ Stock Market and the New York Stock Exchange.

The comparisons in the graph and table below are based on historical data and are not intended to forecast the possible future performance of our common stock.

**Comparison of Stockholder Returns of Universal Electronics Inc.,
the S&P Small Cap 600 and the NASDAQ Composite Index**



	<u>12/31/2005</u>	<u>12/31/2006</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2010</u>
Universal Electronics Inc.	\$ 100	\$ 122	\$ 194	\$ 94	\$ 135	\$ 165
S&P Small Cap 600	\$ 100	\$ 114	\$ 113	\$ 77	\$ 95	\$ 119
NASDAQ Composite Index	\$ 100	\$ 110	\$ 120	\$ 72	\$ 103	\$ 120

Information presented is as of the end of each calendar year for the period December 31, 2005 through 2010. This information shall not be deemed to be “solicited material” or to be “filed” with the Securities and Exchange Commission or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”) nor shall this information be incorporated by reference into any prior or future filings under the Securities Act of 1933 or the Exchange Act, except to the extent that we specifically incorporate it by reference into a filing.

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The information below is not necessarily indicative of the results of future operations and should be read in conjunction with “ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS,” and the Consolidated Financial Statements and notes thereto included in “ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA,” of this Form 10-K, which are incorporated herein by reference, in order to understand further the factors that may affect the comparability of the financial data presented below.

(in thousands, except per share data)	Year Ended December 31,				
	2010	2009	2008	2007	2006
Net sales	\$ 331,780	\$ 317,550	\$ 287,100	\$ 272,680	\$ 235,846
Operating income	\$ 21,301	\$ 21,947	\$ 20,761	\$ 26,451	\$ 18,517
Net income	\$ 15,081	\$ 14,675	\$ 15,806	\$ 20,230	\$ 13,520
Earnings per share:					
Basic	\$ 1.10	\$ 1.07	\$ 1.13	\$ 1.40	\$ 0.98
Diluted	\$ 1.07	\$ 1.05	\$ 1.09	\$ 1.33	\$ 0.94
Shares used in calculating earnings per share:					
Basic	13,764	13,667	14,015	14,410	13,818
Diluted	14,106	13,971	14,456	15,177	14,432
Cash dividend declared per common share	—	—	—	—	—
Gross margin	31.3%	32.0%	33.5%	36.4%	36.4%
Selling, general, administrative, research and development expenses as a % of net sales	24.9%	25.1%	26.3%	26.7%	28.5%
Operating margin	6.4%	6.9%	7.2%	9.7%	7.9%
Net income as a % of net sales	4.6%	4.6%	5.5%	7.4%	5.7%
Return on average assets	5.0%	6.5%	7.3%	10.2%	8.3%
Working capital	\$ 66,101	\$ 127,086	\$ 122,303	\$ 140,330	\$ 106,179
Ratio of current assets to current liabilities	1.4	3.1	3.0	4.0	3.4
Total assets	\$ 372,533	\$ 233,307	\$ 217,555	\$ 217,285	\$ 178,608
Cash and cash equivalents	\$ 54,249	\$ 29,016	\$ 75,238	\$ 86,610	\$ 66,075
Long-term debt	—	—	—	—	—
Stockholders’ equity	\$ 211,204	\$ 169,730	\$ 153,353	\$ 168,242	\$ 134,217
Book value per share (a)	\$ 14.13	\$ 12.40	\$ 11.24	\$ 11.55	\$ 9.58
Ratio of liabilities to liabilities and stockholders’ equity	43.3%	27.3%	29.5%	22.6%	24.9%

(a) Book value per share is defined as stockholders’ equity divided by common shares issued less treasury stock.

The comparability of information between 2010 and prior years is affected by the acquisition of Enson Assets Limited during the fourth quarter of 2010. See “ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS” and “ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 21” for further information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and the related notes that appear elsewhere in this document.

Overview

We develop and manufacture a broad line of pre-programmed universal wireless control products, audio-video accessories, and software that are marketed to enhance home entertainment systems. Our customers operate in the consumer electronics market and include OEMs, subscription broadcasters, international retailers, custom installers, North American retailers, private labels, and companies in the computing industry. We also sell integrated circuits, on which our software and IR code database is embedded, to OEMs that manufacture wireless control devices, cable converters or satellite receivers for resale in their products. We believe that our universal remote control database contains device codes that are capable of controlling virtually all IR controlled TVs, 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 IR code library that covers over 508,000 individual device functions and over 4,200 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.

We operate as one business segment. We have twenty-four subsidiaries located in Argentina, Cayman Islands, France, Germany (2), Hong Kong (6), India, Italy, the Netherlands, Singapore, Spain, Brazil, British Virgin Islands (3), People's Republic of China (3) and the United Kingdom.

To recap our results for 2010:

- Our net sales grew 4.5% from \$317.6 million in 2009 to \$331.8 million in 2010, due to the acquisition of Enson Assets Limited in November 2010, which added \$25.0 million in revenue in 2010.
- Excluding the Enson Assets Limited transaction, our revenue decreased 3.4% from \$317.6 million for 2009 to \$306.8 million for 2010. This decrease is primarily due to the loss of sales from a significant customer who returned to a more traditional dual sourcing arrangement beginning during the first quarter of 2010. This significant customer purchased the majority of its remote controls from us during 2009. We were able to partially offset this loss by acquiring new domestic and international customers in our business category throughout 2010.
- Our 2010 operating income decreased 2.9% to \$21.3 million from \$21.9 million in 2009. Our operating margin percentage decreased from 6.9% in 2009 to 6.4% in 2010 due primarily to the decrease in our gross margin percentage from 32.0% in 2009 to 31.3% in 2010. The decrease in our gross margin rate was due primarily to sales mix, as a higher percentage of our total sales was comprised of our lower-margin Business category. In addition, the weakening of both the Euro and the British Pound versus the U.S. dollar also contributed to the decline in our gross margin percentage. Partially offsetting the decrease in our gross margin percentage was a 20 basis point improvement in operating expenses as a percentage of net sales in 2010 compared to 2009.

Our strategic business objectives for 2011 include the following:

- continue to integrate Enson Assets Limited;

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- decrease third party supplier purchases and increase Enson's utilization of its existing factories;
- place more operations, logistics, quality, program management, engineering, sales, and marketing personnel in the Asia region;
- further penetrate the growing Asian and Latin American subscription broadcasting markets;
- increase our share with existing customers;
- acquire new customers in historically strong regions;
- continue our expansion into new regions, Latin America and Asia in particular; and
- continue to develop industry-leading technologies and products.

We intend for the following discussion of our financial condition and results of operations to provide information that will assist in understanding our consolidated financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect our consolidated financial statements.

Critical Accounting Policies and Estimates

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

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 may have been used, or if changes in the estimate that are reasonably likely to occur may materially impact the financial statements. Management believes the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue recognition

We recognize revenue on the sale of products when title of the goods has transferred, there is persuasive evidence of an arrangement (such as when a purchase order is received from the customer), the sales price is fixed or determinable and collectability is reasonably assured.

We record a provision for estimated retail sales returns. 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. These estimates are based on historical sales returns, analysis of credit memo data and other known factors. Actual returns and claims in any future period are inherently uncertain and thus may differ from our estimates. If actual or expected future returns and claims are significantly greater or lower than the reserves that we have established, we will record a reduction or increase to net revenues in the period in which we make such a determination. The allowance for sales returns balance at December 31, 2010 and 2009 was \$1.4 million and \$2.0 million, respectively.

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

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make payments for products sold or services rendered. The allowance for doubtful accounts is estimated based on a variety of factors, including credit reviews, historical experience, length of time receivables are past due, current economic trends and changes in customer payment behavior. Our historical reserves have been sufficient to cover losses from uncollectible accounts. However, because we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates and may have a material effect on our consolidated financial position, results of operations and cash flows. If the financial condition of our customers deteriorate resulting in their inability to make payments, a larger allowance may be required resulting in a charge to selling, general, and administrative expense in the period in which we make this determination. We incurred \$0.9 million of bad debt expense in 2010 to reflect certain customer accounts where collection was highly uncertain in the current economic environment.

We have not made any material changes in our methodology for recognizing revenue during the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to recognize revenue. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that may be material.

Warranty

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 periods range up to three years. We estimate and recognize product warranty costs, which are included in cost of sales, as we sell the related products. Warranty costs are forecasted based on the best available information, primarily historical claims experience and the expected cost per claim. The costs we have incurred to service warranty claims have been minimal. Historically, product defects have been less than 0.5% of the net units sold. As a result the balance of our reserve for estimated warranty costs is not significant.

We have not made any material changes in our warranty reserve methodology during the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate the warranty reserve. However, actual claim costs may differ from the amounts estimated. If a significant product defect were to be discovered on a high volume product, our financial statements may be materially impacted.

Inventories

Our inventories consist primarily of wireless control devices, component parts, and raw materials, and are valued at the lower of cost or market value. The approximate cost is determined using the first-in, first-out basis. We write-down our inventory for the estimated difference between the inventory's approximate cost and its estimated market value based upon our best estimates of market conditions.

We carry inventory in amounts necessary to satisfy our customers' inventory requirements on a timely basis. We continually monitor our inventory status to control inventory levels and write-down any excess or obsolete inventories on hand. Our total excess and obsolete inventory reserve on December 31, 2010 and 2009 was \$2.1 million and \$1.8 million, respectively, or 3.2% and 4.1% of total inventory. The increase in our excess and obsolete reserve during 2010 was the result of \$2.9 million of additional write-downs offset by \$1.0 million of sell-through, \$1.5 million of scrapping and foreign currency translation effects. This compared to additional write-downs of \$3.3 million offset by \$0.9 million of sell-through and \$2.3 million of scrapping and foreign currency translation effects during 2009.

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We have not made any material changes in the accounting methodology used to establish our excess and obsolete inventory reserve during the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our excess and obsolete inventory reserve. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required which may have a material impact on our financial statements. Such circumstances may include, but are not limited to, the development of new competing technology that impedes the marketability of our products or the occurrence of significant price decreases in our raw material or component parts, such as integrated circuits. Each percentage point change in the ratio of excess and obsolete inventory reserve to inventory would impact cost of sales by approximately \$0.7 million.

Business Combinations

We are required to allocate the purchase price of acquired companies to the tangible and intangible assets and the liabilities assumed, as well as in-process research and development (“IPR&D”), based upon their estimated fair values. We engage independent third-party appraisal firms to assist us in determining the fair values of assets acquired and liabilities assumed. Such valuations require management to make significant fair value estimates and assumptions, especially with respect to intangible assets. Management estimates the fair value of certain intangible assets by utilizing the following (but not limited to):

- future free cash flow from customer contracts, customer lists, distribution agreements, acquired developed technologies, trademarks, trade names and patents;
- expected costs to develop IPR&D into commercially viable products and cash flows from the products once they are completed;
- brand awareness and market position, as well as assumptions regarding the period of time the brand will continue to be used in our product portfolio; and
- discount rates utilized in discounted cash flow models.

Our estimates are based upon assumptions believed to be reasonable; however, unanticipated events or circumstances may occur which may affect the accuracy of our fair value estimates, including assumptions regarding industry economic factors and business strategies.

Valuation of Long-Lived Assets and Intangible Assets

We assess long-lived and intangible assets for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Factors considered important which may trigger an impairment review, if significant, include the following:

- underperformance relative to historical or projected future operating results;
- changes in the manner of use of the assets;
- changes in the strategy of our overall business;
- negative industry or economic trends;
- a decline in our stock price for a sustained period; and
- a variance between our market capitalization relative to net book value.

If the carrying value of the asset is larger than its undiscounted cash flows, the asset is impaired. We measure an impairment based on the projected discounted cash flow method using a discount rate determined by our

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management to be commensurate with the risk inherent in our current business model. In assessing the recoverability, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets.

We have not made any material changes in our impairment loss assessment methodology during the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate the impairment of long-lived assets and intangible assets. However, if actual results are not consistent with our estimates and assumptions we may be exposed to material impairment charges.

Capitalized Software Development Costs

At each balance sheet date, we compare the unamortized capitalized software development costs to the net realizable value of the related product. The amount by which the unamortized capitalized software development costs exceed the net realizable value of the related product is written off. The net realizable value is the estimated future gross revenues attributable to each product reduced by its estimated future completion and disposal costs. Any remaining amount of capitalized software development costs that have been written down are considered to be the cost for subsequent accounting purposes, and the amount of the write-down is not subsequently restored.

We do not believe there is a reasonable likelihood that there will be a material change in the future estimates of net realizable value we use to test for impairment losses on capitalized software development costs. However, if actual results are not consistent with our estimates and assumptions we may be exposed to impairment charges.

Goodwill

We evaluate the carrying value of goodwill on December 31 of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances may include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition or (3) an adverse action or assessment by a regulator.

When performing the impairment review, we determine the carrying amount of each reporting unit by assigning assets and liabilities, including the existing goodwill, to those reporting units. A reporting unit is defined as an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is deemed a reporting unit if the component constitutes a business for which discrete financial information is available, and segment management regularly reviews the operating results of that component. We have a single reporting unit. On December 31, 2010, we had goodwill of \$30.4 million.

To evaluate whether goodwill is impaired, we compare the estimated fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. We estimate the fair value of our reporting unit based on income and market approaches. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Under the market approach, we estimate the fair value based on market multiples of Enterprise Value to EBITDA for comparable companies. If the carrying amount of a reporting unit exceeds its fair value, the amount of the impairment loss must be measured.

The impairment loss would be calculated by comparing the implied fair value of goodwill to its carrying amount. In calculating the implied fair value of the reporting unit's goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the reporting unit's fair value over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. An impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value.

Determining the fair value of a reporting unit or an indefinite-lived purchased intangible asset is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and the determination of appropriate market comparables. In addition, we make certain judgments and assumptions in determining our reporting units. We base our fair value estimates on

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assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

We have not made any material changes in our impairment loss assessment methodology during the past three fiscal years. We continue to estimate the fair value of our reporting unit to be in excess of its carrying value, and therefore have not recorded any impairment. The amount by which the fair value of our reporting unit exceeded its book value utilizing the income and market approaches ranged from 46 percent to 66 percent and therefore we concluded our goodwill was not impaired at December 31, 2010. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to test for impairment losses on goodwill. However, if actual results are not consistent with our estimates and assumptions we may be exposed to material impairment charges.

Income Taxes

We calculate our current and deferred tax provisions based on estimates and assumptions that may differ from the actual results reflected in our income tax returns filed during the subsequent year. We record adjustments based on filed returns when we have identified and finalized them, which is generally in the third and fourth quarters of the subsequent year for U.S. federal and state provisions, respectively.

We recognize deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts using enacted tax rates in effect for the year in which we expect the differences to reverse. We record a valuation allowance to reduce the deferred tax assets to the amount that we are more likely than not to realize. We have considered future market growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate and prudent tax planning strategies in determining the need for a valuation allowance. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, we would increase the valuation allowance and make a corresponding charge to earnings in the period in which we make such determination. Likewise, if we later determine that we are more likely than not to realize the net deferred tax assets, we would reverse the applicable portion of the previously provided valuation allowance. In order for us to realize our deferred tax assets we must be able to generate sufficient taxable income in the tax jurisdictions in which the deferred tax assets are located.

Our effective tax rate includes the impact of certain undistributed foreign earnings for which we have not provided U.S. taxes because we plan to reinvest such earnings indefinitely outside the United States. The decision to reinvest our foreign earnings indefinitely outside the United States is based on our projected cash flow needs as well as the working capital and long-term investment requirements of our foreign subsidiaries and our domestic operations. Material changes in our estimates of cash, working capital and long-term investment requirements in the various jurisdictions in which we do business may impact our effective tax rate.

We are subject to income taxes in the United States and foreign countries, and we are subject to routine corporate income tax audits in many of these jurisdictions. We believe that our tax return positions are fully supported, but tax authorities are likely to challenge certain positions, which may not be fully sustained. However, our income tax expense includes amounts intended to satisfy income tax assessments that result from these challenges in accordance with the accounting for uncertainty in income taxes prescribed by U.S. GAAP. Determining the income tax expense for these potential assessments and recording the related assets and liabilities requires management judgments and estimates.

We have recorded a liability for uncertain tax positions of \$5.6 million at December 31, 2010. We believe that our reserve for uncertain tax positions, including related interest and penalties, is adequate. Our reserve for uncertain tax positions is primarily attributable to uncertainties concerning the tax treatment of our international operations, including the allocation of income among different jurisdictions, and any related interest. We review our reserves quarterly, and we may adjust such reserves due to proposed assessments by tax authorities, changes in facts and circumstances, issuance of new regulations or new case law, previously unavailable information obtained during the course of an examination, negotiations between tax authorities of different countries concerning our transfer prices, execution of advanced pricing agreements, resolution with respect to individual audit issues, the resolution of entire

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audits, or the expiration of statutes of limitations. The amounts ultimately paid upon resolution of audits may be materially different from the amounts previously included in our income tax expense and, therefore, may have a material impact on our operating results, financial position and cash flows.

Stock-Based Compensation Expense

Stock-based compensation expense for each employee and director is presented in the same income statement caption as their cash compensation. Stock-based compensation expense by income statement caption for the years ended December 31, 2010, 2009 and 2008 is the following:

(in thousands)	2010	2009	2008
Cost of sales	\$ 55	\$ 33	\$ 17
Research and development	452	434	356
Selling, general and administrative	4,459	3,845	3,870
Total stock-based compensation expense	<u>\$ 4,966</u>	<u>\$ 4,312</u>	<u>\$ 4,243</u>

Selling, general and administrative expense includes pre-tax stock-based compensation related to restricted stock awards granted to outside directors of \$0.6 million, \$0.5 million and \$0.6 million for the years ended December 31, 2010, 2009 and 2008, respectively. We issue restricted stock awards to the outside directors for services performed. Compensation expense for these restricted stock awards is recognized on a straight-line basis over the requisite service period of one year.

Selling, general and administrative expense includes pre-tax stock-based compensation related to stock option awards granted to outside directors of \$0.3 million, \$0.3 million and \$0.2 million for the years ended December 31, 2010, 2009 and 2008, respectively. We issue stock option awards to the outside directors for services performed. Compensation expense for these stock option awards is recognized on a straight-line basis over the requisite service period of three years.

Stock Option Grants

During the year ended December 31, 2010, the Compensation Committee and Board of Directors granted 119,900 stock options to our employees with an aggregate grant date fair value of \$1.3 million under various stock incentive plans. The stock options granted to employees during 2010 consisted of the following:

(in thousands, except share amounts)

Stock Option Grant Date	Number of Shares Underlying Options	Grant Date Fair Value	Vesting Period
January 25, 2010	99,900	\$ 1,134	4 -Year Vesting Period (0% each quarter during year 1 and 8.33% each quarter during years 2-4)
July 14, 2010	20,000	164	4 -Year Vesting Period (25% each year)
	<u>119,900</u>	<u>\$ 1,298</u>	

During the year ended December 31, 2010, we recognized \$0.3 million of pre-tax stock-based compensation expense related to our 2010 stock option grants.

At December 31, 2010, there was \$2.2 million of unrecognized pre-tax stock-based compensation expense related to non-vested stock options which we expect to recognize over a weighted-average period of 2.3 years.

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Restricted Stock Grants

During the year ended December 31, 2010, the Compensation Committee and Board of Directors granted 45,500 restricted stock awards under the 2006 Stock Incentive Plan to our employees with an aggregate grant date fair value of \$1.1 million. The restricted stock awards granted to employees during 2010 consisted of the following:

(in thousands, except share amounts)

<u>Restricted Stock Grant Date</u>	<u>Number of Shares Granted</u>	<u>Grant Date Fair Value</u>	<u>Vesting Period</u>
January 25, 2010	45,500	\$ 1,133	4 -Year Vesting Period (0% each quarter during year 1 and 8.33% each quarter during years 2-4)

In addition to the grants to employees, 30,000 shares of restricted stock with a grant date fair value of \$0.5 million were granted to our outside directors on July 1, 2010 as a part of their annual compensation package. These shares are subject to a one-year vesting period (25% each quarter).

During the year ended December 31, 2010, we recognized \$0.5 million of pre-tax stock-based compensation expense related to our 2010 restricted stock grants.

At December 31, 2010, there was \$2.9 million of unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards which we expect to recognize over a weighted-average period of 1.7 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 and forfeiture rate 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. 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 may be materially different in the future.

We do not believe it is reasonably likely that there will be a material change in the future estimates or assumptions used to determine stock-based compensation expense. However, if actual results are not consistent with our estimates and assumptions we may be exposed to material stock-based compensation expense. Refer to "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 16" for additional disclosure regarding stock-based compensation expense.

Results of Operations

The following table sets forth our results of operations expressed as a percentage of net sales for the periods indicated.

(in thousands)	Year Ended December 31,					
	2010		2009		2008	
Net sales	\$ 331,780	100.0%	\$ 317,550	100.0%	\$ 287,100	100.0%
Cost of sales	227,931	68.7	215,938	68.0	190,910	66.5
Gross profit	103,849	31.3	101,612	32.0	96,190	33.5
Research and development expenses	10,709	3.2	8,691	2.7	8,160	2.8
Selling, general and administrative expenses	71,839	21.7	70,974	22.4	67,269	23.5
Operating income	21,301	6.4	21,947	6.9	20,761	7.2
Interest income, net	34	0.0	471	0.1	3,017	1.1
Other income (expense), net	523	0.2	(241)	(0.0)	311	0.1
Income before income taxes	21,858	6.6	22,177	7.0	24,089	8.4
Provision for income taxes	6,777	2.0	7,502	2.4	8,283	2.9
Net income	\$ 15,081	4.6%	\$ 14,675	4.6%	\$ 15,806	5.5%

The comparability of information between 2010 and prior years is affected by the acquisition of Enson Assets Limited during the fourth quarter of 2010. See “ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS” and “ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 21” for further information.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Consolidated

Net sales for the year ended December 31, 2010 were \$331.8 million, an increase of 4% compared to \$317.6 million for the same period last year. Net income for 2010 was \$15.1 million or \$1.07 per diluted share compared to \$14.7 million or \$1.05 per diluted share for 2009.

Net sales:	2010		2009	
	\$ (millions)	% of total	\$ (millions)	% of total
Business	\$ 282.9	85.3%	\$ 262.5	82.7%
Consumer	48.9	14.7%	55.1	17.3%
Total net sales	\$ 331.8	100.0%	\$ 317.6	100.0%

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were approximately 85% of net sales for 2010 compared to approximately 83% for 2009. Net sales in our business lines for 2010 increased by approximately 8% to \$282.9 million from \$262.5 million in 2009. This increase in net sales resulted primarily from the November 2010 acquisition of Enson Assets Limited, which added several significant customers and contributed \$25.0 million in sales in 2010. Excluding the net sales which resulted from the acquisition of Enson, the business category decreased by \$4.6 million. This was the result of a significant customer returning to a more traditional dual source arrangement during the first quarter of 2010 after purchasing the majority of its remotes from us during 2009. We were able to partially offset this loss by acquiring new customers both domestically and internationally.

Net sales in our Consumer lines (*One For All*® retail, private label, custom installers, and direct import) were approximately 15% of net sales for 2010 compared to approximately 17% for 2009. Net sales in our Consumer lines for 2010 decreased by 11% to \$48.9 million from \$55.1 million in 2009. Net sales in North American retail decreased by \$4.0 million, or 46%, from \$8.8 million in 2009 to \$4.8 million in 2010. In addition, our custom installer sales decreased by \$3.3 million, from \$6.2 million in 2009 to \$2.9 million in 2010. Partially offsetting these

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decreases was a \$1.1 million increase in international retail sales, from \$40.1 million in 2009 to \$41.2 million in 2010. The 2010 net sales in our Consumer lines were negatively impacted by the weakening of the Euro and the British Pound compared to the U.S. dollar, which resulted in a decrease in net sales of approximately \$1.4 million. Net of the unfavorable currency effect, international retail sales increased by \$2.5 million due primarily to the analog to digital transition that took place in some European countries.

Gross profit for 2010 was \$103.8 million compared to \$101.6 million for 2009. Gross profit as a percent of sales decreased to 31.3% in 2010 from 32.0% in 2009, due primarily to the following:

- A fair value adjustment made to inventory and fixed assets acquired in the Enson Assets Limited acquisition resulted in a decrease of 0.5% in the gross margin rate;
- An increase in freight expense caused a decrease of 0.4% in the gross margin rate;
- Sales mix, as a higher percentage of our total sales was comprised of our lower margin Business category, resulted in a decrease of 0.3% in the gross margin rate;
- Foreign currency fluctuations caused a decrease of 0.2% in the gross margin rate, driven by the weakening of the Euro and British Pound as compared to the U.S. dollar;
- A decrease in inventory scrap expense, resulting from a lower return rate, improved the gross margin rate by 0.4%; and
- A decrease in sub-contract labor, resulting primarily from less rework, caused an increase of 0.3% in the gross margin.

Research and development expenses increased 23% from \$8.7 million in 2009 to \$10.7 million in 2010. The increase is primarily due to additional labor dedicated to general research & development activities in an effort to continue to develop new technologies and products.

Selling, general and administrative expenses increased 1% from \$71.0 million in 2009 to \$71.8 million in 2010. The weakening of the Euro compared to the U.S. dollar resulted in a decrease of \$1.3 million; net of the currency effect, selling, general and administrative expenses increased by \$2.1 million. This increase was driven primarily by an increase in employee bonus expense of \$1.5 million. Additionally, travel expense increased \$0.5 million; advertising expense increased by \$0.4 million; and bad debt expense increased \$0.4 million. Partially offsetting these increases was a decline in commission expense of \$0.8 million, resulting from certain sales personnel not meeting or exceeding their sales targets during 2010.

In 2010, we recorded \$34 thousand of net interest income compared to \$0.5 million for 2009. The decrease in interest income is due to significantly lower interest rates.

We recorded income tax expense of \$6.8 million in 2010 compared to \$7.5 million in 2009. Our effective tax rate was 31.0% in 2010 compared to 33.8% in 2009. The decrease in our effective tax rate was due primarily to a higher percentage of income earned in lower tax rate jurisdictions, the statute of limitations expiring during 2010 on certain tax positions recorded in the United States, and lower interest expense resulting from fewer uncertain tax positions.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008*Consolidated*

Net sales for the year ended December 31, 2009 were \$317.6 million, an increase of 11% compared to \$287.1 million for the same period last year. Net income for 2009 was \$14.7 million or \$1.05 per diluted share compared to \$15.8 million or \$1.09 per diluted share for 2008.

	2009		2008	
	\$ (millions)	% of total	\$ (millions)	% of total
Net sales:				
Business	\$ 262.5	82.7%	\$ 231.5	80.6%
Consumer	55.1	17.3%	55.6	19.4%
Total net sales	<u>\$ 317.6</u>	<u>100.0%</u>	<u>\$ 287.1</u>	<u>100.0%</u>

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were approximately 83% of net sales for 2009 compared to approximately 81% for 2008. Net sales in our business lines for 2009 increased by approximately 13% to \$262.5 million from \$231.5 million in 2008. This increase in net sales resulted primarily from an increase in the volume of remote control sales, which was partially offset by lower prices. The increase in remote control sales volume was attributable to the continued deployment of advanced function set-top boxes by the service operators, market share gains with a few key subscription broadcasting customers and new customer wins. 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 the functions cited continues to increase.

Net sales in our Consumer lines (*One For All*® retail, private label, custom installers, and direct import) were approximately 17% of net sales for 2009 compared to approximately 19% for 2008. Net sales in our consumer lines for 2009 decreased by 1% to \$55.1 million from \$55.6 million in 2008. The 2009 net sales were negatively impacted by the weakening of the Euro and the British Pound compared to the U.S. dollar, which resulted in a decrease in net sales of approximately \$3.6 million. Net of the currency effect, net retail sales outside of the United States were down by an additional \$0.9 million. Net private label sales in the United States decreased by \$1.4 million, or 70%, to \$0.6 million in 2009 from \$2.0 million in 2008. In addition, net sales in the CEDIA market decreased by \$0.8 million, or 11%, from \$7.0 million in 2008 to \$6.2 million in 2009. Partially offsetting these decreases was North American retail, which increased net sales by \$6.2 million, from \$2.0 million in 2008 to \$8.2 million in 2009. The increase in North American retail was the result of our distribution agreement with Audiovox, which was signed during the second quarter of 2008.

Gross profit for 2009 was \$101.6 million compared to \$96.2 million for 2008. Gross profit as a percent of sales decreased to 32.0% in 2009 from 33.5% in 2008, due primarily to the following:

- Sales mix, as a higher percentage of our total sales was comprised of our lower margin Business category. In addition, sales mix within our sales categories also contributed to the decrease in our gross margin rate as consumers trended towards value-oriented products. Collectively, the aforementioned resulted in a decrease of 0.7% in the gross margin rate;
- Foreign currency fluctuations caused a decrease of 0.7% in the gross margin rate driven by the weakening of the Euro and British Pound as compared to the U.S. dollar;
- An increase in inventory scrap expense caused a decrease of 0.2% in the gross margin rate.

Included within the sales mix calculation was the positive benefit of our relationship with Maxim Integrated Products which resulted in an increase in our gross margin percentage of approximately 1.0%. During 2009 we agreed to be Maxim’s sales agent in return for a sales agency fee. The sales agency fee during 2009 was \$4.4

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million. During 2010, as the transition from the Zilog chip platform to the Maxim chip platform progresses, we will begin to take over full sales and distribution rights, procuring and selling the chips directly to Zilog's former customers. We anticipate this relationship will lead to growth in revenue and earnings going forward.

Research and development expenses increased 7% from \$8.2 million in 2008 to \$8.7 million in 2009. The increase is primarily due to additional labor dedicated to general research & development activities.

Selling, general and administrative expenses increased 6% from \$67.3 million in 2008 to \$71.0 million in 2009. The weakening of the Euro compared to the U.S. dollar resulted in a decrease of \$1.6 million; net of the currency effect, selling, general and administrative expenses increased by \$5.3 million. Legal, accounting, and advisory professional service expense increased by \$1.1 million, due to the acquisition of assets from Zilog, which was completed during the first quarter of 2009. The newly-acquired Zilog operations increased operating expenses by an additional \$3.8 million. In addition, severance costs of approximately \$0.9 million were incurred in 2009. During the fourth quarter of 2009, we also settled a copyright infringement lawsuit which increased operating expenses by approximately \$0.6 million. Partially offsetting these increases was a decline in advertising and tradeshow expense which decreased by \$1.1 million.

In 2009, we recorded \$0.5 million of net interest income compared to \$3.0 million for 2008. The decrease in interest income is due to significantly lower interest rates.

We recorded income tax expense of \$7.5 million in 2009 compared to \$8.3 million in 2008. Our effective tax rate was 33.8% in 2009 compared to 34.4% in 2008. The decrease in our effective tax rate was due primarily to the completion of our Dutch tax audit for 2002 through 2006 which resulted in approximately \$0.4 million of tax reserves being reversed and credited into income in the fourth quarter of 2009, offset partially by a higher percentage of income earned in higher tax rate jurisdictions in 2009 compared to 2008.

Liquidity and Capital Resources

Sources and Uses of Cash

(In thousands)	Year Ended December 31, 2010	Increase (Decrease)	Year Ended December 31, 2009	Increase (Decrease)	Year Ended December 31, 2008
Cash provided by operating activities	\$ 37,649	\$ 13,662	\$ 23,987	\$ (6,165)	\$ 30,152
Cash used for investing activities	(34,705)	31,386	(66,091)	(58,671)	(7,420)
Cash provided by (used for) financing activities	23,275	27,497	(4,222)	20,965	(25,187)
Effect of exchange rate changes on cash	(986)	(1,090)	104	9,021	(8,917)
			December 31, 2010	Increase (Decrease)	December 31, 2009
Cash and cash equivalents			\$ 54,249	\$ 25,233	\$ 29,016
Working capital			66,101	(60,985)	127,086

Net cash provided by operating activities in 2010 was \$37.6 million compared to \$24.0 million during 2009. The improvement in cash flow from operations from 2009 to 2010 is due primarily to the strong collection of receivables that were acquired in the acquisition of Enson Assets Limited. We acquired approximately \$37.6 million of receivables from Enson Assets Limited on November 4, 2010; however, Enson's receivable balance as of December 31, 2010 was approximately \$26.0 million, reflecting cash inflows of approximately \$11.6 million for the aforementioned two month period. Inventories increased from December 31, 2009 to December 31, 2010 as a result of anticipated increased demand in 2011. In addition, our fourth quarter 2010 net sales were towards the lower end of our expectations resulting in higher than expected inventories on December 31, 2010.

Net cash provided by operating activities in 2009 was \$24.0 million compared to \$30.2 million during 2008. The decrease in cash flows from operating activities in 2009 compared to 2008 was primarily due to our deliberate effort to improve our vendor management which commenced during 2008 and resulted in a \$15.6 million cash inflow by the end of 2008. As a result of the improved vendor terms being negotiated and implemented in 2008, there was minimal opportunity for improvement relating to accounts payable in 2009. Days in payables actually decreased

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from 81 days at December 31, 2008 to 67 days at December 31, 2009 resulting in a cash outflow of approximately \$2.1 million in 2009. In addition, during 2009 we had cash outflows related to accounts receivable of \$4.2 million compared to cash outflows of \$1.5 million during 2008 due primarily to higher net sales over the prior two years. Partially offsetting the aforementioned activity was an improvement in inventory turns from 4.4 turns in 2008 to 5.3 turns in 2009. Despite having higher sales, our inventory levels decreased from \$43.7 million at December 31, 2008 to \$40.9 million at December 31, 2009 compared to an inventory build of \$8.8 million from December 31, 2007 to December 31, 2008.

Net cash used for investing activities during 2010 was \$34.7 million as compared to \$66.1 million and \$7.4 million of net cash used during 2009 and 2008, respectively. The decrease in cash used for investing activities during 2010 compared to 2009 was primarily due to our \$49.2 million time deposit investment maturing during 2010 which was initially entered into during 2009. The cash proceeds from the time deposit were used to purchase Enson Assets Limited during 2010, which amounted to a \$74.1 million cash outflow net of cash acquired. In addition, we acquired intangible assets and goodwill of \$9.5 million from Zilog Inc. during 2009. There were no acquisitions during 2008, only typical annual investments in property, plant, and equipment as well as internally developed patents. Please refer to "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Notes 7 and 21" for additional disclosure regarding our acquisition of Enson Assets Limited and purchase of goodwill and intangible assets from Zilog Inc.

Net cash provided by financing activities was \$23.3 million during 2010 compared to cash used for financing activities of \$4.2 million and \$25.2 million during 2009 and 2008, respectively. During 2010 we had proceeds from debt issuance of \$41.0 million to fund our acquisition of Enson Assets Limited. During 2010 we made debt payments totaling \$9.8 million. Proceeds from stock option exercises were \$2.0 million during 2010 compared to proceeds of \$3.3 million and \$1.2 million during 2009 and 2008, respectively. In addition, we purchased 505,692 shares of our common stock at a cost of \$10.1 million during 2010, compared to 404,643 and 1,118,318 shares at a cost of \$7.7 million and \$26.7 million during 2009 and 2008, respectively. We hold these shares as treasury stock and they are available for reissue. Presently, except for using a minimal 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.

On February 11, 2010, our Board of Directors authorized management to continue repurchasing up to an additional 1,000,000 shares of our issued and outstanding common stock. Repurchases may be made to manage dilution created by shares issued under our stock incentive plans or whenever we deem a repurchase is a good use of our cash and the price to be paid is at or below a threshold approved by our Board. As of December 31, 2010, we have repurchased 473,126 shares of our common stock under this authorization, leaving 526,874 shares available for repurchase.

Contractual Obligations

The following table summarizes our contractual obligations and the effect these obligations are expected to have on our liquidity and cash flow in future periods.

(in thousands)	Payments Due by Period				
	Total	Less than 1 year	1 - 3 Years	4 - 5 years	After 5 years
Contractual obligations:					
Operating lease obligations	\$ 3,509	\$ 1,883	\$ 1,566	\$ 60	\$ —
Purchase obligations ⁽¹⁾	762	762	—	—	—
Total contractual obligations	<u>\$ 4,271</u>	<u>\$ 2,645</u>	<u>\$ 1,566</u>	<u>\$ 60</u>	<u>\$ —</u>

(1) Purchase obligations primarily include contractual payments to purchase tooling assets.

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Liquidity

Historically, we have utilized cash provided from operations as our primary source of liquidity, as internally generated cash flows have been sufficient to support our business operations, capital expenditures and discretionary share repurchases. We believe our current cash balances and anticipated cash flow generated from operations are sufficient to cover cash outlays expected during 2011.

We are able to supplement this near-term liquidity, if necessary, with credit line facilities made available by various foreign and domestic financial institutions. Our liquidity is subject to various risks including the market risks identified in the section entitled “Qualitative and Quantitative Disclosures about Market Risk” in Item 7A.

	On December 31,		
	2010	2009	2008
Cash and cash equivalents	\$ 54,249	\$ 29,016	\$ 75,238
Term deposit	—	49,246	—
Total debt	35,000	—	—
Available borrowing resources	33,766	15,000	15,000

On December 31, 2010, we had an outstanding balance of \$35.0 million related to our U.S. Bank 1-year term loan facility. Our term loan, along with our line of credit and available cash, was utilized to finance the acquisition of Enson Assets Limited and to pay related transaction costs, fees, and expenses. Amounts paid or prepaid on the term loan may not be re-borrowed. The minimum principal payments for the term loan are \$2.2 million each quarter. The first principal and interest payment was made on January 5, 2011. The remaining principal and interest payments are due on April 5, July 5, and October 5 of 2011. In addition, a final payment equal to the unpaid principal balance plus accrued interest is due on the term loan maturity date. The term loan maturity date is November 1, 2011. During 2011, we anticipate paying the principal balance down to zero prior to the term loan maturity date.

Our debt covenants require that the percentage of our funded debt to EBITDA remain below 100%. On December 31, 2010, we were in breach of this covenant. This breach resulted from the timing of the Enson Assets Limited acquisition. On December 31, 2010, we carried a note payable of \$35.0 million utilized to partially fund the acquisition; however our results of operations for the twelve months ended December 31, 2010, included less than two months of Enson Assets Limited EBITDA resulting in the breach. The acceleration of our \$35.0 million obligation has been waived by U.S. Bank for the calculation performed on December 31, 2010. We do not anticipate that we will remain in breach of this covenant since going forward we will be able to include the full period of Enson Asset Limited’s EBITDA within the calculation. We were not in breach of any other debt covenants on December 31, 2010.

Our working capital needs have typically been greatest during the third and fourth quarters when accounts receivable and inventories increase in connection with the fourth quarter holiday selling season. At December 31, 2010, we had \$66.1 million of working capital compared to \$127.1 million at December 31, 2009. The decrease in working capital was driven primarily by the Enson Asset Limited acquisition which resulted in cash consideration of \$95.0 million, offset partially by net working capital acquired.

Our cash balances are held in numerous locations throughout the world, including substantial amounts held outside of the United States. The majority of our cash is held outside of the United States and may be repatriated to the United States but, under current law, would be subject to United States federal income taxes, less applicable foreign tax credits. Repatriation of some foreign balances is restricted by local laws. We have not provided for the United States federal tax liability on these amounts for financial statement purposes as this cash is considered indefinitely reinvested outside of the United States. Our intent is to meet our domestic liquidity needs through ongoing cash flows, external borrowings, or both. We utilize a variety of tax planning strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed.

On December 31, 2010, we had approximately \$6.5 million, \$15.0 million, \$27.8 million, \$4.0 million, and \$0.9 million of cash and cash equivalents in the United States, Europe, Asia, Cayman Islands and Brazil, respectively. We attempt to mitigate our exposure to liquidity, credit and other relevant risks by placing our cash, cash equivalents, and term deposit with financial institutions we believe are high quality.

For further information regarding our credit facilities, see “ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.”

It is our policy to carefully monitor the state of our business, cash requirements and capital structure. We believe that the cash generated from our operations and funds from our credit facilities will be sufficient to support our

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current business operations as well as anticipated growth at least through the end of 2011; however, there can be no assurance that such funds will be adequate for that purpose.

Off Balance Sheet Arrangements

We do not participate in any off balance sheet arrangements.

New Accounting Pronouncements

See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 2" for a discussion of new accounting pronouncements.

ITEM 7A. 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.

Interest Rate Risk

We are exposed to interest rate risk related to our debt. We may withdraw either U.S. dollars or foreign currencies from our credit facilities. Our market risk exposures in connection with the debt are primarily U.S. dollar LIBOR-based floating interest. On December 31, 2010, we had an outstanding balance of \$35.0 million related to our U.S. Bank 1-year term loan facility. The term loan maturity date is November 1, 2011. Under the U.S. Bank secured revolving credit line, we may elect to pay interest based on the bank's prime rate or LIBOR plus a fixed margin of 1.8%. The applicable LIBOR (1, 3, 6, or 12-month LIBOR) corresponds with the loan period we select. At December 31, 2010, the 12-month LIBOR plus the fixed margin was 2.6% and the bank's prime rate was 3.25%. If a LIBOR rate loan is prepaid prior to the completion of the loan period, we must pay the bank the difference between the interest the bank would have earned had prepayment not occurred and the interest the bank actually earned. We may prepay prime rate loans in whole or in part at any time without a premium or penalty.

We cannot make any assurances that we will not need to borrow additional amounts in the future or that funds will be extended to us under comparable terms or at all. If funding is not available to us at a time when we need to borrow, we would have to use our cash reserves, including potentially repatriating cash from foreign jurisdictions, which may have a material adverse effect on our operating results, financial position and cash flows.

Foreign Currency Exchange Rate Risk

At December 31, 2010 we had wholly owned subsidiaries in the People's Republic of China, Argentina, Brazil, Cayman Islands, France, Germany, Hong Kong, India, Italy, the Netherlands, Singapore, Spain, and the United Kingdom. We are exposed to foreign currency exchange rate risk inherent in our sales commitments, anticipated sales, anticipated purchases, assets and liabilities denominated in currencies other than the U.S. dollar. The most significant foreign currencies to our operations for fiscal 2010 were the Euro, British Pound and Chinese Yuan Renminbi. For most currencies, we are a net receiver of the foreign currency and therefore benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the foreign currency. Even where we are a net receiver, a weaker U.S. dollar may adversely affect certain expense figures taken alone.

From time to time, we enter into foreign currency exchange agreements to manage the foreign currency exchange rate risks inherent in our forecasted income and cash flows denominated in foreign currencies. The terms of these foreign currency exchange agreements normally last less than nine months. We recognize the gains and losses on these foreign currency contracts in the same period as the remeasurement losses and gains of the related foreign currency-denominated exposures.

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

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and we take steps to minimize exposure as we deem appropriate. Alternatively, we may choose not to hedge the foreign currency risk associated with our foreign currency exposures, primarily if such exposure acts as a natural foreign currency hedge for other offsetting amounts denominated in the same currency or the currency is difficult or too expensive to hedge. We do not enter into any derivative transactions for speculative purposes.

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 with all other variables held constant. The analysis covers all of our foreign currency contracts offset by the underlying exposures. Based on our overall foreign currency rate exposure at December 31, 2010, we believe that movements in foreign currency rates may have a material affect on our financial position. We estimate that if the exchange rates for the Euro, British Pound, Chinese Yuan Renminbi, Indian Rupee, and Singapore dollar relative to the U.S. dollar fluctuate 10% from December 31, 2010, net income and total cash flows in the first quarter of 2011 would fluctuate by approximately \$2.4 million and \$5.0 million, respectively.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Universal Electronics Inc.

We have audited the accompanying consolidated balance sheets of Universal Electronics Inc. (a Delaware corporation) as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Universal Electronics Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Universal Electronics Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2011 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Irvine, California
March 16, 2011

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

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 54,249	\$ 29,016
Term deposit	—	49,246
Accounts receivable, net	86,304	64,392
Inventories, net	65,402	40,947
Prepaid expenses and other current assets	2,582	2,423
Deferred income taxes	6,256	3,016
Total current assets	214,793	189,040
Property, plant, and equipment, net	78,097	9,990
Goodwill	30,379	13,724
Intangible assets, net	35,994	11,572
Other assets	5,464	1,144
Deferred income taxes	7,806	7,837
Total assets	<u>\$372,533</u>	<u>\$233,307</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 56,086	\$ 39,514
Notes payable	35,000	—
Accrued sales discounts, rebates and royalties	7,942	6,028
Accrued income taxes	5,873	3,254
Accrued compensation	30,634	4,619
Other accrued expenses	13,157	8,539
Total current liabilities	148,692	61,954
Long-term liabilities:		
Deferred income taxes	11,369	153
Income tax payable	1,212	1,348
Other long-term liabilities	56	122
Total liabilities	<u>161,329</u>	<u>63,577</u>
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; 20,877,248 and 19,140,232 shares issued at December 31, 2010 and 2009, respectively	209	191
Paid-in capital	166,940	128,913
Accumulated other comprehensive (loss) income	(489)	1,463
Retained earnings	134,070	118,989
	<u>300,730</u>	<u>249,556</u>
Less cost of common stock in treasury, 5,926,071 and 5,449,962 shares at December 31, 2010 and 2009, respectively	<u>(89,526)</u>	<u>(79,826)</u>
Total stockholders' equity	211,204	169,730
Total liabilities and stockholders' equity	<u>\$372,533</u>	<u>\$233,307</u>

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

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

	Year Ended December 31,		
	2010	2009	2008
Net sales	\$ 331,780	\$ 317,550	\$ 287,100
Cost of sales	227,931	215,938	190,910
Gross profit	103,849	101,612	96,190
Research and development expenses	10,709	8,691	8,160
Selling, general and administrative expenses	71,839	70,974	67,269
Operating income	21,301	21,947	20,761
Interest income, net	34	471	3,017
Other income (expense), net	523	(241)	311
Income before provision for income taxes	21,858	22,177	24,089
Provision for income taxes	6,777	7,502	8,283
Net income	<u>\$ 15,081</u>	<u>\$ 14,675</u>	<u>\$ 15,806</u>
Earnings per share:			
Basic	<u>\$ 1.10</u>	<u>\$ 1.07</u>	<u>\$ 1.13</u>
Diluted	<u>\$ 1.07</u>	<u>\$ 1.05</u>	<u>\$ 1.09</u>
Shares used in computing earnings per share:			
Basic	<u>13,764</u>	<u>13,667</u>	<u>14,015</u>
Diluted	<u>14,106</u>	<u>13,971</u>	<u>14,456</u>

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

UNIVERSAL ELECTRONICS INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock Issued		Common Stock in Treasury		Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Totals	Comprehensive Income
	Shares	Amount	Shares	Amount					
Balance at December 31, 2007	18,547	\$ 185	(3,975)	\$ (46,113)	\$ 114,441	\$ 11,221	\$ 88,508	\$ 168,242	
Comprehensive income:									
Net income							15,806		\$ 15,806
Currency translation adjustment						(10,471)			(10,471)
Total comprehensive income									\$ 5,335
Shares issued for employee benefit plan and compensation	55	1			632			633	
Purchase of treasury shares			(1,118)	(26,689)				(26,689)	
Stock options exercised	114	1			1,157			1,158	
Shares issued to Directors			23	353	(353)			—	
Stock-based compensation expense					4,243			4,243	
Tax benefit from exercise of non-qualified stock options and vested restricted stock					431			431	
Balance at December 31, 2008	18,716	\$ 187	(5,070)	\$ (72,449)	\$ 120,551	\$ 750	\$ 104,314	\$ 153,353	
Comprehensive income:									
Net income							14,675		\$ 14,675
Currency translation adjustment						713			713
Total comprehensive income									\$ 15,388
Shares issued for employee benefit plan and compensation	145	1			740			741	
Purchase of treasury shares			(405)	(7,747)				(7,747)	
Stock options exercised	279	3			3,272			3,275	
Shares issued to Directors			25	370	(370)			—	
Stock-based compensation expense					4,312			4,312	
Tax benefit from exercise of non-qualified stock options and vested restricted stock					408			408	
Balance at December 31, 2009	19,140	\$ 191	(5,450)	\$ (79,826)	\$ 128,913	\$ 1,463	\$ 118,989	\$ 169,730	
Comprehensive income:									
Net income							15,081		\$ 15,081
Currency translation adjustment						(1,952)			(1,952)
Total comprehensive income									\$ 13,129
Shares issued for employee benefit plan and compensation	156	2			564			566	
Shares issued for purchase of Enson Assets Limited	1,460	15			30,748			30,763	
Purchase of treasury shares			(506)	(10,145)				(10,145)	
Stock options exercised	121	1			1,963			1,964	
Shares issued to Directors			30	445	(445)			—	
Stock-based compensation expense					4,966			4,966	
Tax benefit from exercise of non-qualified stock options and vested restricted stock					231			231	
Balance at December 31, 2010	20,877	\$ 209	(5,926)	\$ (89,526)	\$ 166,940	\$ (489)	\$ 134,070	\$ 211,204	

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

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

	Year Ended December 31,		
	2010	2009	2008
Cash provided by operating activities:			
Net income	\$ 15,081	\$ 14,675	\$ 15,806
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,059	6,801	6,084
Provision for doubtful accounts	931	435	465
Provision for inventory write-downs	3,514	4,179	3,270
Deferred income taxes	(911)	(1,036)	(559)
Tax benefit from exercise of stock options and vested restricted stock	231	408	431
Excess tax benefit from stock-based compensation	(290)	(250)	(344)
Shares issued for employee benefit plan	566	741	633
Stock-based compensation	4,966	4,312	4,243
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:			
Accounts receivable	13,192	(4,278)	(1,502)
Inventories	(5,102)	(1,053)	(12,817)
Prepaid expenses and other assets	950	552	(1,888)
Accounts payable and accrued expenses	784	(2,201)	15,668
Accrued income and other taxes	(4,322)	702	662
Net cash provided by operating activities	<u>37,649</u>	<u>23,987</u>	<u>30,152</u>
Cash used for investing activities:			
Acquisition of Enson Assets Limited, net of cash acquired	(74,133)	—	—
Term deposit	49,246	(49,246)	—
Acquisition of property, plant, and equipment	(8,440)	(6,171)	(5,945)
Acquisition of intangible assets	(1,378)	(1,172)	(1,475)
Acquisition of assets from Zilog, Inc.	—	(9,502)	—
Net cash used for investing activities	<u>(34,705)</u>	<u>(66,091)</u>	<u>(7,420)</u>
Cash provided by (used for) financing activities:			
Issuance of debt	41,000	—	—
Payment of debt	(9,834)	—	—
Proceeds from stock options exercised	1,964	3,275	1,158
Treasury stock purchased	(10,145)	(7,747)	(26,689)
Excess tax benefit from stock-based compensation	290	250	344
Net cash provided by (used for) financing activities	<u>23,275</u>	<u>(4,222)</u>	<u>(25,187)</u>
Effect of exchange rate changes on cash	(986)	104	(8,917)
Net increase (decrease) in cash and cash equivalents	25,233	(46,222)	(11,372)
Cash and cash equivalents at beginning of year	29,016	75,238	86,610
Cash and cash equivalents at end of year	<u>\$ 54,249</u>	<u>\$ 29,016</u>	<u>\$ 75,238</u>

Supplemental Cash Flow Information — *Income taxes paid were \$11.7 million, \$8.1 million and \$8.2 million in 2010, 2009, and 2008, respectively.*

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

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 1 — Description of Business

Universal Electronics Inc., based in Southern California, develops and manufactures a broad line of easy-to-use, pre-programmed universal wireless control products and audio-video accessories as well as software designed to enable consumers to wirelessly connect, control and interact with an increasingly complex home entertainment environment. In addition, over the past 23 years we have developed a broad portfolio of patented technologies and a database of home connectivity software that we license to our customers, including many leading Fortune 500 companies.

Our primary markets include cable and satellite television service provider, original equipment manufacturer (“OEMs”), retail, custom installer, private label, and personal computing companies. We sell directly to our customers, and for retail and custom installers we also sell through distributors in Europe, Australia, New Zealand, South Africa, the Middle East, Mexico, and selected countries in Asia and Latin America under the *One For All*® and *Nevo*® brand names.

As used herein, the terms “we”, “us” and “our” refer to Universal Electronics Inc. and its subsidiaries unless the context indicates to the contrary.

Note 2 — Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All the intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Reclassification

Certain prior period amounts in the accompanying consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported net income or shareholders’ equity.

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 assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and assumptions, including those related to revenue recognition, allowance for sales returns and doubtful accounts, warranties, inventory valuation, business combination purchase price allocations, our review for impairment of long-lived assets, intangible assets and goodwill, income taxes and compensation expense. Actual results may differ from these assumptions and estimates, and they may be adjusted as more information becomes available. Any adjustment may be material.

Revenue Recognition and Sales Allowances

We recognize revenue on the sale of products when title of the goods has transferred, there is persuasive evidence of an arrangement (such as when a purchase order is received from the customer), the sales price is fixed or determinable and collectability is reasonably assured.

The provision recorded for estimated sales returns is deducted from gross sales to arrive at net sales in the period the related revenue is recorded. These estimates are based on historical sales returns, analysis of credit memo data and

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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other known factors. We have no obligations after delivery of our products other than the associated warranties (see Note 13 for further information concerning our warranty obligations).

We offer discounts and rebates that are recorded based on historical experience and our expectation regarding future sales by a customer. Changes in such accruals may be required if future rebates and incentives differ from our estimates. Rebates and incentives are recognized as a reduction of sales if distributed in cash or customer account credits. Rebates and incentives are recognized as cost of sales if we provide products or services for payment.

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Sales allowances are recognized as reductions of gross accounts receivable to arrive at accounts receivable, net if they are distributed in customer account credits (see below and Note 4 for further information concerning our sales allowances).

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make payments for products sold or services rendered. The allowance for doubtful accounts is based on a variety of factors, including historical experience, length of time receivables are past due, current economic trends and changes in customer payment behavior. Also, we record specific provisions for individual accounts when we become aware of a customer's inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to a customer change, our estimates of the recoverability of the receivables would be further adjusted, either upward or downward.

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

We also license our intellectual property including our patented technologies, trade secrets, trademarks, and database of infrared codes. When our license fees are paid on a per unit basis we record license revenue when our customers ship a product incorporating our intellectual property, persuasive evidence of an arrangement exists, the sales price is fixed or determinable, and collectability is reasonably assured. When license fees are paid in an up-front, non-refundable, payment for a specified period of time we recognize revenue on a straight-line basis over the effective term of the license because we cannot reliably predict in which periods, within the term of the license, the licensee will benefit from the use of our patented inventions.

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

We present all non-income government-assessed taxes (sales, use and value added taxes) collected from our customers and remitted to governmental agencies on a net basis (excluded from revenue) in our financial statements. The government-assessed taxes are recorded in other accrued expenses until they are remitted to the government agency.

Income Taxes

Income tax expense includes U.S. and foreign income taxes. We account for income taxes using the liability method. We record deferred tax assets and deferred tax liabilities on our balance sheet for expected future tax consequences of events recognized in our financial statements in a different period than our tax return using enacted tax rates that will be in effect when these differences reverse. We record a valuation allowance to reduce net deferred tax assets if

UNIVERSAL ELECTRONICS INC.
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DECEMBER 31, 2010

we determine that it is more likely than not that the deferred tax assets will not be realized. A current tax asset or liability is recognized for the estimated taxes refundable or payable for the current year.

On January 1, 2007, we adopted an accounting standard which prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of the positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. A "more likely than not" tax position is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement, or else a full reserve is established against the tax asset or a liability is recorded. See Note 9 for further information concerning income taxes.

Research and Development

Research and development costs are expensed as incurred and consist primarily of salaries, employee benefits, supplies and materials.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled \$1.7 million, \$1.3 million and \$2.1 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Shipping and Handling Fees and Costs

We include shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with in-bound freight are recorded in cost of goods sold. Other shipping and handling costs are included in selling, general and administrative expenses and totaled \$7.5 million, \$7.9 million and \$8.4 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Stock-Based Compensation

We recognize the grant date fair value of stock-based compensation awards as expense, net of estimated forfeitures, in proportion to vesting during the requisite service period, which is generally one to four years.

We determine the fair value of the restricted stock awards utilizing the average of the high and low trade prices of our Company's shares on the date they were granted.

We have evaluated the available option pricing models and the assumptions we may utilize to estimate the grant date fair value of stock options granted to employees and directors. We have elected to utilize the Black-Scholes option pricing model. The assumptions utilized in the Black-Scholes model include the following:

- weighted average fair value of grant;
- risk-free interest rate;
- expected volatility; and
- expected life in years.

Our risk-free interest rate over the expected term is equal to the prevailing U.S. Treasury note rate over the same period. As part of our assessment of possible expected volatility assumptions, 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 calculate the expected volatility of our common stock utilizing its historical volatility over a period of time equal to the expected term of the stock option. To determine our expected life assumption, we examined the historical pattern of stock option exercises in an effort to

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010

determine if there were any discernable patterns based on employee classification. From this analysis, we identified two classifications: (1) Executives and Board of Directors and (2) Non-Executives. Our estimate of expected life is computed utilizing historical exercise patterns and post-vesting behavior within each of the two identified classifications. See Notes 14 and 16 for further information regarding stock-based compensation.

Foreign Currency Translation and Foreign Currency Transactions

We use the U.S. dollar as our functional currency for financial reporting purposes. The functional currency for most of our foreign subsidiaries is their local currency. The translation of foreign currencies into U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet dates and for revenue and expense accounts using the average exchange rate during each period. The gains and losses resulting from the translation are included in the foreign currency translation adjustment account, a component of accumulated other comprehensive income in stockholders' equity, and are excluded from net income. The portions of intercompany accounts receivable and accounts payable that are intended for settlement are translated at exchange rates in effect at the balance sheet date. Our intercompany foreign investments and long-term debt that are not intended for settlement are translated using historical exchange rates.

We recorded a foreign currency translation loss of \$2.0 million, a gain of \$0.7 million and a loss of \$10.5 million for the years ended December 31, 2010, 2009 and 2008, respectively. The foreign currency translation loss of \$2.0 million for the year ended December 31, 2010 was driven by the strengthening of the U.S. dollar versus the Euro. The U.S. dollar/Euro spot rate was 1.34 and 1.43 at December 31, 2010 and 2009, respectively.

The foreign currency translation gain of \$0.7 million for the year ended December 31, 2009 was driven by the weakening of the U.S. dollar versus the Euro. The U.S. dollar/Euro spot rate was 1.43 and 1.39 at December 31, 2009 and 2008, respectively.

The foreign currency translation loss of \$10.5 million for the year ended December 31, 2008 was driven by the strengthening of the U.S. dollar versus the Euro. The U.S. dollar/Euro spot rate was 1.39 and 1.46 at December 31, 2008 and 2007, respectively. The foreign currency translation loss during 2008 was compounded by our transfer of €47.0 million (\$60.2 million) into Hong Kong dollars (which are indexed to the U.S. dollar) in November 2008. The U.S. dollar/Euro spot rate at the time of transfer was 1.28. This composed approximately \$7.2 million of the foreign currency translation loss for 2008.

Transaction gains and losses generated by the effect of changes in foreign currency exchange rates on recorded assets and liabilities denominated in a currency different than the functional currency of the applicable entity are recorded in other income (expense), net (see Note 17 for further information concerning transaction gains and losses).

Financial Instruments

Our financial instruments consist primarily of investments in cash and cash equivalents, term deposits, accounts receivable, accounts payable and accrued liabilities. The carrying value of our financial instruments approximate fair value as a result of their short maturities (see Notes 3, 4, 5, 8, 10, and 11 for further information concerning our financial instruments).

Cash, Cash Equivalents, and Term Deposit

Cash and cash equivalents include cash accounts and all investments purchased with initial maturities of 3 months or less. We attempt to mitigate our exposure to liquidity, credit and other relevant risks by placing our cash, cash equivalents, and term deposits with financial institutions we believe are high quality. These financial institutions are located in many different geographic regions. As part of our cash and risk management processes, we perform

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periodic evaluations of the relative credit standing of our financial institutions. We have not sustained credit losses from instruments held at financial institutions (see Note 3 for further information concerning cash, cash equivalents, and term deposit).

Inventories

Inventories consist of remote controls, audio-video accessories as well as the related component parts and raw materials. Inventoriable costs include materials, labor, freight-in and manufacturing overhead related to the purchase and production of inventories. We value our inventories at the lower of cost or market. Cost is determined using the first-in, first-out method. We attempt to carry inventories in amounts necessary to satisfy our customer requirements on a timely basis (see Note 5 for further information concerning our inventories and suppliers).

Product innovations and technological advances may shorten a given product's life cycle. We continually monitor our inventories to identify any excess or obsolete items on hand. We write-down our inventories for estimated excess and obsolescence in an amount equal to the difference between the cost of the inventories and its estimated net realizable value. These estimates are based upon management's judgment about future demand and market conditions. Actual results may differ from management's judgments and additional write-downs may be required. Our total excess and obsolete inventory reserve on December 31, 2010 and 2009 was \$2.1 million and \$1.8 million, respectively, or 3.2% and 4.1% of our total inventory balance.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost less estimated residual value (if applicable). The cost of property, plant, and equipment includes the purchase price of the asset and all expenditures necessary to prepare the asset for its intended use. We capitalize additions and improvements and expense maintenance and repairs as incurred. To qualify for capitalization an asset must have a useful life greater than one year and a cost greater than \$1,000 for individual assets or \$5,000 for assets purchased in bulk.

We capitalize certain internal and external costs incurred to acquire or create internal use software, principally related to software coding, designing system interfaces and installation and testing of the software.

For financial reporting purposes, depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the appropriate accounts and any gain or loss is included as a component of depreciation expense in operating income.

Estimated useful lives consist of the following:

Buildings	25 Years
Tooling and equipment	2-7 Years
Computer equipment	3-7 Years
Software	3-5 Years
Furniture and fixtures	5-7 Years
Leasehold improvements	Lesser of lease term or useful life (approximately 2 to 6 years)

See Note 6 for further information concerning our property, plant, and equipment.

Goodwill

We record the excess purchase price of net tangible and intangible assets acquired over their estimated fair value as goodwill. We evaluate the carrying value of goodwill on December 31 of each year and between annual evaluations

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if events occur or circumstances change that may reduce the fair value of the reporting unit below its carrying amount. Such circumstances may include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator.

When performing the impairment review, we determine the carrying amount of each reporting unit by assigning assets and liabilities, including the existing goodwill, to those reporting units. A reporting unit is defined as an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is deemed a reporting unit if the component constitutes a business for which discrete financial information is available, and segment management regularly reviews the operating results of that component. We have a single reporting unit.

To evaluate whether goodwill is impaired, we compare the estimated fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. We estimate the fair value of our reporting unit based on income and market approaches. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Under the market approach, we estimate the fair value based on market multiples of Enterprise Value to EBITDA for comparable companies. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference.

To calculate the implied fair value of the reporting unit's goodwill, the fair value of the reporting unit is first allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the reporting unit's fair value over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. An impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value.

We conducted annual goodwill impairment reviews on December 31, 2010, 2009 and 2008. Based on the analysis performed, we determined that the fair values of our reporting unit exceeded its carrying amount, including goodwill, and therefore it was not impaired. See Notes 7 and 21 for further information concerning goodwill.

Long-Lived and Intangible Assets Impairment

Intangible assets consist principally of distribution rights, patents, trademarks, trade names, developed and core technologies, capitalized software development costs (see also Note 2 under the caption *Capitalized Software Development Costs*) and customer relationships. 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 one to fifteen years.

We assess the impairment of long-lived assets and intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which may trigger an impairment review include the following: (1) significant underperformance relative to expected historical or projected future operating results; (2) significant changes in the manner or use of the assets or strategy for the overall business; (3) significant negative industry or economic trends and (4) a significant decline in our stock price for a sustained period.

We conduct an impairment review when we determine that the carrying value of a long-lived or intangible asset may not be recoverable based upon the existence of one or more of the above indicators of impairment. The asset is impaired if its carrying value exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. In assessing recoverability, we must make assumptions regarding estimated future cash flows and other factors.

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The impairment loss is the amount by which the carrying value of the asset exceeds its fair value. We estimate fair value utilizing the projected discounted cash flow method and a discount rate determined by our management to be commensurate with the risk inherent in our current business model. When calculating fair value, we must make assumptions regarding estimated future cash flows, discount rates and other factors.

See Notes 6 and 15 for further information concerning long-lived assets. See Notes 7 and 21 for further information concerning intangible assets.

Capitalized Software Development Costs

Costs incurred to develop software for resale are expensed when incurred as research and development until technological feasibility has been established. We have determined that technological feasibility for our products is established when a working model is complete. Once technological feasibility is established, software development costs are capitalized until the product is available for general release to customers.

Capitalized software development costs are amortized on a product-by-product basis. Amortization is recorded in cost of sales and is the greater amount computed using:

- a. the net book value at the beginning of the period multiplied by the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product; or
- b. the straight-line method over the remaining estimated economic life of the product including the period being reported on.

The amortization of capitalized software development costs begins when the related product is available for general release to customers. The amortization periods normally range from one to two years.

We compare the unamortized capitalized software development costs of a product to its net realizable value at each balance sheet date. The amount by which the unamortized capitalized software development costs exceed the product's net realizable value is written off. The net realizable value is the estimated future gross revenues of a product reduced by its estimated completion and disposal costs. Any remaining amount of capitalized software development costs are considered to be the cost for subsequent accounting purposes and the amount of the write-down is not subsequently restored. See Note 7 for further information concerning capitalized software development costs.

Derivatives

Our foreign currency exposures are primarily concentrated in the Brazilian Real, British Pound, Chinese Yuan Renminbi, Euro, Hong Kong dollar, Indian Rupee, and Singapore dollar. 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, cash flows and reported income. We do not enter into financial instruments for speculation or trading purposes.

The derivatives we enter into 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 income (expense), net. Derivatives are recorded on the balance sheet at fair value. The estimated fair value of derivative financial instruments represents the amount required to enter into similar offsetting contracts with similar remaining maturities based on quoted market prices. See Note 19 for further information concerning derivatives.

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Fair-Value Measurements

We measure fair value using the framework established by the FASB accounting guidance for fair value measurements and disclosures. This framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

The valuation techniques are based upon observable and unobservable inputs. Observable or market inputs reflect market data obtained from independent sources. Unobservable inputs require management to make certain assumptions and judgments based on the best information available. Observable inputs are the preferred source of values. These two types of inputs create the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Prices or valuations that require management inputs that are both significant to the fair value measurement and unobservable.

New Accounting Pronouncements

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

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

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prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted, however, if early adoption is elected, we would be required to apply the amendments retrospectively from the beginning of the fiscal year of adoption and make specific disclosures. We have not yet adopted this ASU, and we do not expect its adoption will have a material effect on our consolidated results of operations and financial condition.

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

During December 2010, the FASB issued ASU No. 2010-29 to address diversity in practice regarding the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. ASC 805-10-50-2(h) requires a public entity to disclose pro forma information for business combinations that occurred during the current annual reporting period. The disclosures include combined pro forma revenue and earnings as though the acquisition date for all business combinations during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. In practice, some preparers have presented the pro forma information in their comparative financial statements as if the business combination that occurred in the current reporting period had occurred as of the beginning of each of the current and prior annual reporting periods. Other preparers have disclosed the pro forma information as if the business combination occurred at the beginning of the prior annual reporting period only, and carried forward the related adjustments, if applicable, through the current reporting period. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in this Update also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15,

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2010. Early adoption is permitted. We have not yet adopted this ASU, and we do not expect its adoption will have a material effect on our consolidated results of operations and financial condition.

Recently Adopted Accounting Pronouncements

During December 2007, the FASB issued guidance that established principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. This guidance also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The adoption of this guidance will affect the classification of acquisition costs. These costs will now be expensed, versus being added to the consideration transferred for an acquisition. The result is a reduction in the consideration amount allocated to specific assets and liabilities received in an acquisition. This guidance was effective for us January 1, 2009. As a result of adopting this guidance, we recognized \$1.1 million of acquisition costs during the year ended December 31, 2009 related to our purchase of assets from Zilog. The acquisition costs recognized during 2009 included \$0.1 million of acquisition costs that were deferred at December 31, 2008. In addition, during 2010 we recognized \$0.7 million of acquisition costs during the year ended December 31, 2010 related to our purchase of Enson Assets Limited.

Note 3 — Cash, Cash Equivalents, and Term Deposit

The following table sets forth our cash, cash equivalents, and term deposit that were accounted for at fair value on a recurring basis on December 31, 2010 and 2009:

(In thousands) Description	December 31, 2010				December 31, 2009			
	Fair Value Measurement Using			Total Balance	Fair Value Measurement Using			Total Balance
	(Level 1)	(Level 2)	(Level 3)		(Level 1)	(Level 2)	(Level 3)	
Cash and cash equivalents	\$ 54,249	\$ —	\$ —	\$ 54,249	\$ 29,016	\$ —	\$ —	\$ 29,016
Term deposit	—	—	—	—	49,246	—	—	49,246
	<u>\$ 54,249</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 54,249</u>	<u>\$ 78,262</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 78,262</u>

On December 31, 2010, we had approximately \$6.5 million, \$15.0 million, \$27.8 million, \$4.0 million, and \$0.9 million of cash and cash equivalents in the United States, Europe, Asia, Cayman Islands and Brazil, respectively.

In addition, on December 31, 2009, we had a six-month term deposit cash account at Wells Fargo Bank denominated in Hong Kong dollars. The term began on July 21, 2009 and ended on January 21, 2010. The term deposit earned interest at an annual rate of 0.57%. The deposit principal and interest receivable related to this account on December 31, 2009 was \$49.2 million and \$0.1 million, respectively.

See Note 2 under the caption *Cash, Cash Equivalents, and Term Deposit* for further information regarding our accounting principles.

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Note 4 — Accounts Receivable, Net and Revenue Concentrations

Accounts receivable, net consisted of the following on December 31, 2010 and 2009:

(in thousands)	2010	2009
Trade receivables, gross	\$ 88,485	\$ 68,458
Allowance for doubtful accounts	(878)	(2,423)
Allowance for sales returns	(1,366)	(1,999)
Net trade receivables	86,241	64,036
Other	63	356
Accounts receivable, net	<u>\$ 86,304</u>	<u>\$ 64,392</u>

Allowance for Doubtful Accounts

The following changes occurred in the allowance for doubtful accounts during the years ended December 31, 2010, 2009 and 2008:

(in thousands) Description	Balance at Beginning of Period	Additions to Costs and Expenses	(Write-offs/ FX Effects)	Balance at End of Period
Year Ended December 31, 2010	\$ 2,423	\$ 931	\$ (2,476)	\$ 878
Year Ended December 31, 2009	\$ 2,439	\$ 435	\$ (451)	\$ 2,423
Year Ended December 31, 2008	\$ 2,330	\$ 465	\$ (356)	\$ 2,439

Sales Returns

The allowance for sales returns balance at December 31, 2010 and 2009 contained reserves for items returned prior to year-end, but that were not completely processed, and therefore had not yet been removed from the allowance for sales returns balance. If these returns had been fully processed, the allowance for sales returns balance would have been approximately \$0.9 million and \$1.4 million on December 31, 2010 and 2009, respectively. The value of these returned goods was included in our inventory balance at December 31, 2010 and 2009.

Significant Customers

During the years ended December 31, 2010, 2009 and 2008, we had net sales to two significant customers, that when combined with their subcontractors, each totaled to more than 10% of our consolidated net sales as follows:

	Year Ended December 31,					
	2010		2009		2008	
	\$ (thousands)	% of Net Sales	\$ (thousands)	% of Net Sales	\$ (thousands)	% of Net Sales
Customer A	\$ 45,367	13.7%	\$ 66,849	21.1%	\$ 55,316	19.3%
Customer B	\$ 42,716	12.9%	\$ 35,382	11.1%	\$ 38,577	13.4%

Trade receivables with these customers were the following on December 31, 2010 and 2009:

	December 31, 2010		December 31, 2009	
	\$ (thousands)	% of Accounts receivable, net	\$ (thousands)	% of Accounts Receivable, net
Customer A	\$ 9,481	11.0%	\$ 7,006	10.9%
Customer B	\$ 4,786	5.5%	\$ 6,516	10.1%

We had a third customer that accounted for greater than 10% of accounts receivable, net on December 31, 2010, but did not account for greater than 10% of net sales for the year then ended. Trade receivables with this customer

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amounted to \$10,458 thousand, or 12.1%, of our accounts receivable, net on December 31, 2010. We had a fourth customer that accounted for greater than 10% of accounts receivable, net on December 31, 2009, but did not account for greater than 10% of net sales for the year then ended. Trade receivables with this customer amounted to \$6,866 thousand, or 10.7%, of our accounts receivable, net on December 31, 2009.

The loss of these customers or any other customer, either in the United States or abroad, due to their financial weakness or bankruptcy, or our inability to obtain orders or maintain our order volume with them, may have a material adverse effect on our financial condition, results of operations and cash flows. Please see Note 2 under the captions *Revenue Recognition and Sales Allowances* and *Financial Instruments* for further information regarding our accounting principles.

Note 5 — Inventories, Net and Significant Suppliers

Inventories, net consisted of the following at December 31, 2010 and 2009:

(in thousands)	<u>2010</u>	<u>2009</u>
Raw materials	\$ 15,416	\$ 2,192
Components	10,806	9,384
Work in process	2,885	—
Finished goods	38,430	31,121
Reserve for excess and obsolete inventory	(2,135)	(1,750)
Inventories, net	<u>\$ 65,402</u>	<u>\$ 40,947</u>

Reserve for Excess and Obsolete Inventory

Changes in the reserve for excess and obsolete inventory during the years ended December 30, 2010, 2009 and 2008 were composed of the following:

(In thousands) Description	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Costs and Expenses(1)</u>	<u>Sell Through(2)</u>	<u>Write-offs/FX Effects</u>	<u>Balance at End of Period</u>
Reserve for excess and obsolete inventory:					
Year Ended December 31, 2010	\$ 1,750	\$ 2,887	\$ (1,043)	\$ (1,459)	\$ 2,135
Year Ended December 31, 2009	\$ 1,535	\$ 3,340	\$ (865)	\$ (2,260)	\$ 1,750
Year Ended December 31, 2008	\$ 1,826	\$ 2,409	\$ (454)	\$ (2,246)	\$ 1,535

- (1) The additions charged to costs and expenses does not include inventory directly written-off that was scrapped during production totaling \$0.6 million, \$0.8 million, and \$0.9 million for the years ended December 31, 2010, 2009 and 2008. These amounts are production waste and are not included in management's reserve for excess and obsolete inventory.
- (2) This column represents the gross book value of inventory items sold during the period that had been previously written down to zero net book value. Sell through is the result of differences between our judgment concerning the salability of inventory items during the excess and obsolete inventory review process and our subsequent experience.

Please see Note 2 under the caption *Inventories* for further information regarding our accounting principles.

Significant Suppliers

We purchase integrated circuits, used principally in our wireless control products, from two main suppliers. The total purchased from one of these suppliers was greater than 10% of our total inventory purchases. In addition, our purchases from one component and finished good supplier amounted to greater than 10% of our total inventory purchases for the year ended December 31, 2010. Our purchases from three component and finished good suppliers each amounted to greater than 10% of our total inventory purchases for the years ended December 31, 2009 and 2008.

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During the years ended December 31, 2010, 2009 and 2008, the amounts purchased from these four suppliers were the following:

	Year Ended December 31,					
	2010		2009		2008	
	\$ (thousands)	% of Total Inventory Purchases	\$ (thousands)	% of Total Inventory Purchases	\$ (thousands)	% of Total Inventory Purchases
Integrated circuit supplier A	\$ 30,047	15.3%	\$ 28,290	14.8%	\$ 28,208	15.2%
Component and finished good supplier A	\$ 36,966	18.9%	\$ 44,590	23.3%	\$ 50,566	27.3%
Component and finished good supplier B (1)	—	—	\$ 46,004	24.1%	\$ 38,088	20.6%
Component and finished good supplier C	—	—	\$ 28,879	15.1%	\$ 18,612	10.0%

The total accounts payable to each of these suppliers on December 31, 2010 and 2009 were the following:

	December 31, 2010		December 31, 2009	
	\$ (thousands)	% of Accounts Payable	\$ (thousands)	% of Accounts Payable
Integrated circuit supplier A	\$ 3,731	6.7%	\$ 3,613	9.1%
Component and finished good supplier A	\$ 9,172	16.4%	\$ 8,290	21.0%
Component and finished good supplier B (1)	—	—	\$ 11,887	30.1%
Component and finished good supplier C	—	—	\$ 6,760	17.1%

(1) Component and finished good supplier B is Enson Assets Limited and its subsidiaries. See Note 21 for further information regarding our acquisition of Enson Assets Limited.

We have identified alternative sources of supply for these integrated circuits, components, and finished goods; however, there can be no assurance that we will be able to continue to obtain these inventory purchases on a timely basis. We generally maintain inventories of our integrated circuits, which may be utilized to mitigate, but not eliminate, delays resulting from supply interruptions. An extended interruption, shortage or termination in the supply of any of the components used in our products, a reduction in their quality or reliability, or a significant increase in the prices of components, would have an adverse effect on our operating results, financial condition and cash flows.

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Note 6 — Property, Plant, and Equipment, Net

Property, plant, and equipment, net consisted of the following at December 31, 2010 and 2009:

(in thousands)	2010	2009
Buildings	\$ 41,679	\$ —
Tooling	21,287	12,816
Computer equipment	3,681	2,701
Software	6,489	3,066
Furniture and fixtures	3,486	1,651
Leasehold improvements	14,654	2,932
Machinery and equipment	35,348	1,482
	126,624	24,648
Accumulated depreciation	(54,868)	(17,868)
	71,756	6,780
Construction in progress	6,341	3,210
Total property, plant, and equipment, net	<u>\$ 78,097</u>	<u>\$ 9,990</u>

Depreciation expense, including tooling depreciation which is recorded in cost of goods sold, was \$5.9 million, \$5.0 million and \$4.6 million for the years ended December 31, 2010, 2009 and 2008, respectively.

The net book value of property, plant, and equipment located within the People's Republic of China was \$70.3 million and \$3.6 million on December 31, 2010 and 2009, respectively.

On December 31, 2010, construction in progress included \$2.2 million of building improvements, \$0.8 million of tooling, \$1.7 million of internal use software costs and \$1.6 million of machinery and equipment. We expect that approximately 100% of the construction in progress costs will be placed in service during the first and second quarters of 2011. We will begin to depreciate those assets at that time. On December 31, 2009, construction in progress included \$0.6 million of tooling, \$2.2 million of internal use software costs, and \$0.3 million of machinery and equipment.

Please see Note 2 under the captions *Property, plant, and equipment* and *Long-Lived and Intangible Assets Impairment* for further information regarding our accounting principles.

Note 7 — Goodwill and Intangible Assets, Net*Goodwill*

Under the accounting guidance, the unit of accounting for goodwill is at a level of reporting referred to as a "reporting unit." A reporting unit is either (1) an operating segment or (2) one level below an operating segment — referred to as a component. During the fourth quarter 2010, as a result of us flattening our management structure, we merged our international component with our domestic component. We no longer have segment management of the international component and the financial results of our international component are not separate. In addition, these components have similar economic characteristics. As a result of these changes, our domestic and international components have been merged into our single operating segment.

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The goodwill on December 31, 2010 and changes in the carrying amount of goodwill during the two years ended December 31, 2010 were the following:

(in thousands)	
Balance at December 31, 2008	\$ 10,757
Goodwill acquired during the period (1)	2,902
Goodwill adjustments (2)	65
Balance at December 31, 2009	\$ 13,724
Goodwill acquired during the period (3)	16,839
Goodwill adjustments (2)	(184)
Balance at December 31, 2010	<u>\$ 30,379</u>

- (1) During the first quarter of 2009, we recognized \$2.9 million of goodwill related to the Zilog acquisition. Please refer to Note 21 for further information about this acquisition.
- (2) The adjustment included in international goodwill was the result of fluctuations in the foreign currency exchange rates used to translate the balance into U.S. dollars.
- (3) During the fourth quarter of 2010, we recognized \$16.8 million of goodwill related to the Enson Assets Limited acquisition. Please refer to Note 21 for further information about this acquisition.

We conducted annual goodwill impairment reviews on December 31, 2010, 2009 and 2008 utilizing significant unobservable inputs (level 3). Based on the analysis performed, we determined that our goodwill was not impaired.

Please see Note 2 under the captions *Goodwill* and *Fair-Value Measurements* for further information regarding our accounting principles and the valuation methodology utilized.

Intangible Assets, Net

The components of intangible assets, net at December 31, 2010 and December 31, 2009 are listed below:

(in thousands)	2010			2009		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Carrying amount(1):						
Distribution rights (10 years)	\$ 384	\$ (51)	\$ 333	\$ 411	\$ (54)	\$ 357
Patents (10 years)	8,612	(4,589)	4,023	7,810	(3,925)	3,885
Trademark and trade names (10 years) (2)	2,836	(565)	2,271	840	(441)	399
Developed and core technology (5 -15 years)(3)	3,500	(438)	3,062	3,500	(204)	3,296
Capitalized software development costs (1-2 years)	1,896	(1,165)	731	1,420	(704)	716
Customer relationships (10-15 years)(4)	26,349	(775)	25,574	3,100	(181)	2,919
Total carrying amount	<u>\$ 43,577</u>	<u>\$ (7,583)</u>	<u>\$ 35,994</u>	<u>\$ 17,081</u>	<u>\$ (5,509)</u>	<u>\$ 11,572</u>

- (1) This table excludes the gross value of fully amortized intangible assets totaling \$7.6 million and \$7.6 million on December 31, 2010 and 2009, respectively.
- (2) As part of our acquisition of Enson Assets Limited during the fourth quarter of 2010, we purchased trademark and trade names valued at \$2.0 million, which are being amortized ratably over ten years. Refer to Note 21 for further information regarding our purchase of trademark and trade names.
- (3) During the first quarter of 2009, we purchased core technology from Zilog Inc. valued at \$3.5 million, which is being amortized ratably over fifteen years. Refer to Note 21 for further information about this acquisition.

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- (4) During the first quarter of 2009, we purchased customer relationships from Zilog valued at \$3.1 million, which are being amortized ratably over fifteen years. During the fourth quarter of 2010 as part of the Enson Assets Limited acquisition we purchased customer relationships valued at \$23.3 million, which are being amortized ratably over ten years. Refer to Note 21 for further information regarding our purchase of these customer relationships.

Amortization expense is recorded in selling, general and administrative expenses, except amortization expense related to capitalized software development costs which is recorded in cost of sales. Amortization expense by income statement caption during the years ended December 31, 2010, 2009 and 2008 is the following:

(in thousands)	Year Ended December 31,		
	2010	2009	2008
Cost of sales	\$ 492	\$ 450	\$ 329
Selling, general and administrative	1,686	1,397	1,192
Total amortization expense	\$ 2,178	\$ 1,847	\$ 1,521

Estimated future amortization expense related to our intangible assets at December 31, 2010, is the following:

(in thousands)	
2011	\$ 4,309
2012	4,108
2013	3,843
2014	3,822
2015	3,759
Thereafter	16,153
	\$ 35,994

The remaining weighted average amortization period of our intangible assets is 9.6 years.

Intangibles Measured at Fair Value on a Nonrecurring Basis

We recorded impairment charges related to our intangible assets of \$0.02 million, \$0.01 million and \$0.1 million for the years ended December 31, 2010, 2009 and 2008, respectively. Impairment charges are recorded in selling, general and administrative expenses as a component of amortization expense, except impairment charges related to capitalized software development costs which are recorded in cost of sales. The fair value adjustments for intangible assets measured at fair value on a nonrecurring basis during the year ended December 31, 2010 were the following:

(In thousands)	Description	December 31, 2010	Fair Value Measurement Using			Total Gains (Losses)
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	Patents, trademarks and trade names	\$ 6,294	—	—	\$ 6,294	\$ (21)

Thirteen patents and eight trademarks with an aggregate carrying amount of \$21 thousand were disposed of, resulting in impairment charges of \$21 thousand during 2010. We disposed of patents and trademarks with a carrying amount of \$13 thousand in 2009. We disposed of patents with a carrying amount of \$27 thousand, capitalized software development costs with a carrying value of \$46 thousand, and other intangibles with a carrying amount of \$55 thousand in 2008. These assets no longer held any probable future economic benefits and were written-off.

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See Note 2 under the captions *Long-Lived and Intangible Assets Impairment*, *Capitalized Software Development Costs*, and *Fair-Value Measurements* for further information regarding our accounting principles and the valuation methodology utilized.

Note 8 — Notes Payable

Notes payable on December 31, 2010 and 2009 were comprised of the following:

(In thousands)	Amount Outstanding	
	2010	2009
U.S. Bank Term Loan Facility ⁽¹⁾	\$ 35,000	\$ —

(1) Under the U.S. Bank term loan, we may elect to pay interest based on the bank's prime rate or LIBOR plus a fixed margin of 1.5%. The applicable LIBOR (1, 3, 6, or 12-month LIBOR) corresponds with the loan period we select. On December 31, 2010, the 1-month LIBOR plus the fixed margin was approximately 1.8% and the bank's prime rate was 3.25%. If a LIBOR rate loan is prepaid prior to the completion of the loan period, the Company must pay the bank the difference between the interest the bank would have earned had prepayment not occurred and the interest the bank actually earned.

Our total interest expense on borrowings was \$0.1 million and \$0 during the years ended December 31, 2010 and 2009, respectively.

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Information about our credit facilities at December 31, 2010 is the following:

Creditor	Maturity	Currency	Type	Security	Interest Rate	Total Available (USD)(1)	Amount Outstanding	Funds Available
U.S. Bank	November 1, 2011	USD	Secured 1-year Term Loan	Sixty-five percent of Enson Assets Limited (3)	We may elect to pay interest based on the bank's prime rate or LIBOR plus a fixed margin of 1.5%. The applicable LIBOR (1, 3, 6, or 12-month LIBOR) corresponds with the loan period we select for each principle payment.	\$35,000	\$35,000	\$ —
U.S. Bank	November 1, 2012	USD	Secured Revolving Credit Line	Sixty-five percent of Enson Assets Limited(3)	We may elect to pay interest based on the bank's prime rate or LIBOR plus a fixed margin of 1.8%. The applicable LIBOR (1, 3, 6, or 12-month LIBOR) corresponds with the loan period we select.	\$20,000	\$ —	\$20,000
Standard Chartered Bank	NA(2)	HKD or USD	Secured Revolving Credit Line	Negative pledge on the fixed assets of our Yang Zhou factory	For Hong Kong dollars we pay interest based on HIBOR plus a fixed margin of 2.25%, and for U.S. dollars we pay interest based in LIBOR plus a fixed margin of 2.25%. The applicable HIBOR or LIBOR (1, 3, 6, or 12-month) corresponds with the loan period we select.	\$ 6,433	\$ —	\$ 6,433
Standard Chartered Bank	NA(2)	HKD	Secured Overdraft Credit Line	Negative pledge on the fixed assets of our Yang Zhou factory	Greater of the bank's prime rate or HIBOR plus 1.0%. If HIBOR plus 1.0% is greater than the bank's prime rate, interest is calculated based on the HIBOR plus a fixed margin of 2.75%. The applicable HIBOR (1, 3, 6, or 12-month) corresponds with the loan period we select.	\$ 901	\$ —	\$ 901
BNP Paribas Bank	NA(2)	HKD or USD	Unsecured Revolving Credit Line	NA	Under this revolving credit line we pay interest based on the bank's cost of funds plus a fixed margin of 1.5%.	\$ 3,602	\$ —	\$ 3,602
BNP Paribas Bank	NA(2)	HKD	Unsecured Overdraft Credit Line	NA	The rate at which we accrue interest is based on the greater of the bank's prime rate or cost of funds.	\$ 257	\$ —	\$ 257
BNP Paribas Bank	NA(2)	HKD	Unsecured Revolving Credit Line	NA	We pay interest based on the bank's COF plus a fixed margin of 1.65%	\$ 2,573	\$ —	\$ 2,573

- (1) Amounts available for borrowing are reduced by the balance of any outstanding import letters of credit and are subject to certain quarterly financial covenants related to our cash flow, fixed charges, quick ratio, and net income.
- (2) These credit facilities do not have a maturity date, but are reviewed by each respective bank on at least an annual basis. During these annual reviews, each bank may make changes to the amount available for borrowing as they deem appropriate.
- (3) The U.S. Bank 1-year term loan and revolving credit line are secured by \$82.9 million of Enson Asset Limited's net assets.

U.S. Bank Credit Facility

On November 1, 2010, we amended and restated our existing credit agreement with U.S. Bank. The amendments added a new \$35.0 million secured term loan facility ("Term Loan") for the purpose of financing a portion of our acquisition of Enson Assets Limited. In addition, our existing \$15.0 million unsecured revolving credit line with U.S. Bank ("Credit Facility") became a secured facility, the amount available for borrowing was increased to \$20.0 million, and the expiration date was extended from October 31, 2011 to November 1, 2012.

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Secured 1-year Term Loan

The Company's new term loan may only be utilized to finance the acquisition of Enson and to pay related transaction costs, fees, and expenses. The minimum principal payments for the term loan are \$2.2 million each quarter. The first principal and interest payment was made on January 5, 2011. The remaining principal and interest payments are due on April 5, July 5, and October 5 of 2011. In addition, a final payment equal to the unpaid principal balance plus accrued interest is due on the term loan maturity date. The term loan maturity date is November 1, 2011. Amounts paid or prepaid on the term loan may not be re-borrowed.

Secured Revolving Credit Line

Under the U.S. Bank secured revolving credit line, we may elect to pay interest based on the bank's prime rate or LIBOR plus a fixed margin of 1.8%. The applicable LIBOR (1, 3, 6, or 12-month LIBOR) corresponds with the loan period we select. At December 31, 2010, the 12-month LIBOR plus the fixed margin was 2.6% and the bank's prime rate was 3.25%. If a LIBOR rate loan is prepaid prior to the completion of the loan period, we must pay the bank the difference between the interest the bank would have earned had prepayment not occurred and the interest the bank actually earned. We may prepay prime rate loans in whole or in part at any time without a premium or penalty.

Our debt covenants require that the percentage of our funded debt to EBITDA remain below 100%. On December 31, 2010, we were in breach of this covenant. This breach resulted from the timing of the Enson Assets Limited acquisition. On December 31, 2010, we carried a note payable of \$35.0 million utilized to partially fund the acquisition; however our results of operations for the twelve months ended December 31, 2010, included less than two months of Enson Assets Limited EBITDA resulting in the breach. The acceleration of our \$35.0 million obligation has been waived by U.S. Bank for the calculation performed on December 31, 2010. We do not anticipate that we will remain in breach of this covenant since going forward we will be able to include the full period of Enson Asset Limited's EBITDA within the calculation. We were not in breach of any other debt covenants on December 31, 2010.

Other Credit Facilities

The credit facilities other than the U.S. Bank facilities were obtained as a result of the Enson Assets Limited acquisition.

Note 9 — Income Taxes

During 2010, 2009 and 2008, pre-tax income was attributed to the following jurisdictions:

(in thousands)	Year Ended December 31,		
	2010	2009	2008
Domestic operations	\$ 10,878	\$ 17,060	\$ 16,650
Foreign operations	10,980	5,117	7,439
Total	<u>\$ 21,858</u>	<u>\$ 22,177</u>	<u>\$ 24,089</u>

The provision for income taxes charged to operations for the twelve months ended December 31, 2008, 2009, and 2010 were the following:

(in thousands)	Year Ended December 31,		
	2010	2009	2008
Current tax expense:			
U.S. federal	\$ 3,814	\$ 7,003	\$ 5,407
State and local	391	631	1,230
Foreign	3,483	904	2,205
Total current	<u>7,688</u>	<u>8,538</u>	<u>8,842</u>
Deferred tax (benefit) expense:			
U.S. federal	(40)	(918)	206
State and local	(294)	(376)	(627)
Foreign	(577)	258	(138)
Total deferred	<u>(911)</u>	<u>(1,036)</u>	<u>(559)</u>
Total provision for income taxes	<u>\$ 6,777</u>	<u>\$ 7,502</u>	<u>\$ 8,283</u>

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Net deferred tax assets were comprised of the following on December 31, 2010 and 2009:

(in thousands)	2010	2009
Deferred tax assets:		
Inventory reserves	\$ 605	\$ 272
Allowance for doubtful accounts	302	154
Capitalized research costs	155	105
Capitalized inventory costs	661	768
Net operating losses	1,764	2,046
Amortization of intangibles	—	572
Accrued liabilities	3,817	1,155
Income tax credits	2,058	1,763
Depreciation	—	991
Stock-based compensation	3,210	2,769
Other	381	450
Total deferred tax assets	12,953	11,045
Deferred tax liability:		
Depreciation	(5,273)	—
Amortization of intangible assets	(3,565)	—
Acquired intangible assets	(121)	(154)
Other	(1,219)	(495)
Total deferred tax liabilities	(10,178)	(649)
Net deferred tax assets before valuation allowance	2,775	10,396
Less: Valuation allowance	(139)	(179)
Net deferred tax assets	\$ 2,636	\$ 10,217

At December 31, 2010 and 2009, \$0.1 million and \$0.5 million, respectively, of current deferred tax liabilities were recorded within other accrued expenses (see Note 11). The deferred tax valuation allowance was \$0.1 million and \$0.2 million on December 31, 2010 and 2009, respectively.

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pre-tax income from operations as a result of the following:

(in thousands)	Year Ended December 31,		
	2010	2009	2008
Tax provision at statutory U.S. rate	\$ 7,650	\$ 7,764	\$ 8,431
Increase (decrease) in tax provision resulting from:			
State and local taxes, net	63	166	392
Foreign tax rate differential	(484)	(36)	(154)
Nondeductible items	231	682	251
Federal research and development credits	(723)	(272)	(424)
Settlements	(110)	(449)	—
Other	150	(353)	(213)
Tax provision	\$ 6,777	\$ 7,502	\$ 8,283

At December 31, 2010, we had state Research and Experimentation (“R&E”) income tax credit carry forwards of approximately \$1.9 million. The state R&E income tax credits do not have an expiration date.

At December 31, 2010, we had federal, state and foreign net operating losses of approximately \$4.1 million, \$5.0 million and \$0.2 million, respectively. All of the federal and state net operating loss carry forwards were acquired as part of the acquisition of SimpleDevices. The federal and state net operating loss carry forwards begin to expire during 2020 and 2016, respectively. Approximately \$0.2 million of the foreign net operating losses will begin to expire in 2020.

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Internal Revenue Code Section 382 places certain limitations on the annual amount of net operating loss carry forwards that may be utilized if certain changes to a company's ownership occur. Our acquisition of SimpleDevices was a change in ownership pursuant to Section 382 of the Internal Revenue Code, and the federal and state net operating loss carry forwards of SimpleDevices are limited but considered realizable in future periods. The annual federal limitation is approximately \$0.6 million for 2010 and thereafter. California has suspended utilization of net operating losses for 2010 and 2011.

At December 31, 2010, we believed it was more likely than not that certain deferred tax assets related to the impairment of our investment in a private company (a capital asset) would not be realized due to uncertainties as to the timing and amounts of future capital gains. Accordingly, a valuation allowance of approximately \$0.1 million was recorded as of December 31, 2010 and 2009. Additionally, we recorded \$20 thousand and \$0.1 million of various state and foreign valuation allowances at December 31, 2010 and 2009.

During the years ended December 31, 2010, 2009 and 2008 we recognized a credit to paid-in capital and a reduction to income taxes payable of \$0.2 million, \$0.4 million and \$0.4 million, respectively, related to the tax benefit from the exercises of non-qualified stock options and vesting of restricted stock under our stock-based incentive plans.

During 2010, we settled an audit in France by the French Tax Authorities for fiscal years 2005 and 2006 which resulted in the reversal of \$0.1 million of previously recorded uncertain tax positions being credited into income. During 2009, we settled an audit in the Netherlands by the Dutch Tax Authorities for the fiscal years 2002 through 2006, which resulted in the reversal of \$0.4 million of previously recorded uncertain tax positions being credited into income.

The undistributed earnings of our foreign subsidiaries are considered to be indefinitely reinvested. Accordingly, no provision for U.S. federal and state income taxes or foreign withholding taxes has been provided on such undistributed earnings. Determination of the potential amount of unrecognized deferred U.S. income tax liability and foreign withholding taxes is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits would be available to reduce some portion of the U.S. liability.

Uncertain Tax Positions

At December 31, 2010 and 2009, we had unrecognized tax benefits of approximately \$5.6 million and \$2.8 million, including interest and penalties, respectively. In accordance with accounting guidance, we have elected to classify interest and penalties as components of tax expense. Interest and penalties were \$0.2 million, \$0.2 million and \$1.2 million at December 31, 2010, 2009 and 2008, respectively. Interest and penalties are included in the unrecognized tax benefits.

Our gross unrecognized tax benefits at December 31, 2010, 2009 and 2008, and the changes during those years then ended, are the following:

(in thousands)	<u>2010</u>	<u>2009</u>	<u>2008</u>
Beginning balance	\$ 2,580	\$ 7,504	\$ 7,817
Additions as a result of tax provisions taken during the current year	159	324	404
Subtractions as a result of tax provisions taken during the prior year	(123)	(82)	—
Foreign currency translation	174	146	(410)
Lapse in statute of limitations	(317)	(80)	(307)
Settlements	(99)	(5,232)	—
Acquisition	3,037	—	—
Ending balance	<u>\$ 5,411</u>	<u>\$ 2,580</u>	<u>\$ 7,504</u>

Approximately \$5.1 million and \$2.3 million of the total amount of gross unrecognized tax benefits at December 31, 2010 and 2009, respectively, would affect the annual effective tax rate, if recognized. The increase of \$2.8 million in

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unrecognized tax benefits at December 31, 2010 is due to liabilities recorded by Enson Assets Limited. Furthermore, we are unaware of any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase within the next twelve months. We anticipate a decrease in gross unrecognized tax benefits of approximately \$0.3 million within the next twelve months based on federal, state, and foreign statute expirations in various jurisdictions.

We file income tax returns in the U.S. federal jurisdictions and in various state and foreign jurisdictions. At December 31, 2010 the open statutes of limitations for our significant tax jurisdictions are the following: federal and state are 2006 through 2010 and non-U.S. are 2002 through 2010. At December 31, 2010, our gross unrecognized tax benefits of \$5.6 million are classified as long term because we do not anticipate payment of cash related to those unrecognized tax benefits within one year.

Please see Note 2 under the caption *Income Taxes* for further information regarding our accounting principles.

Note 10 — Accrued Compensation

The components of accrued compensation on December 31, 2010 and 2009 are listed below:

(in thousands)	2010	2009
Accrued social insurance ⁽¹⁾	\$ 20,360	\$ —
Other accrued compensation	10,274	4,619
Total accrued compensation	<u>\$ 30,634</u>	<u>\$ 4,619</u>

(1) Effective January 1, 2008, the Chinese Labor Contract Law was enacted in the People's Republic of China ("PRC"). This law mandated that PRC employers remit the applicable social insurance payments to their local government. Social insurance is comprised of various components such as pension, medical insurance, job injury insurance, unemployment insurance, and a housing assistance fund, and is administered in a manner similar to social security in the United States. This amount represents our estimate of the amounts due to the PRC government for social insurance on December 31, 2010.

Note 11 — Other Accrued Expenses

The components of other accrued expenses on December 31, 2010 and 2009 are listed below:

(in thousands)	2010	2009
Accrued freight	\$ 1,350	\$ 1,525
Accrued professional fees	1,158	1,512
Accrued advertising and marketing	467	589
Deferred income taxes	57	483
Interest	99	—
Accrued third-party commissions	252	301
Accrued sales taxes and VAT	678	845
Tooling	1,567	51
Utilities	340	—
Amount due to Enson Asset Limited shareholders	5,000	—
Sales tax refundable to customers	—	454
Legal settlement	—	575
Other	2,189	2,204
Total other accrued expenses	<u>\$ 13,157</u>	<u>\$ 8,539</u>

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Note 12 — Leases

We lease land, office and warehouse space, and certain office equipment under operating leases that expire at various dates through November 30, 2060. Rent expense for our operating leases was \$2.5 million, \$2.5 million and \$2.6 million for the years ended December 31, 2010, 2009 and 2008, respectively. The following table summarizes future minimum non-cancelable operating lease payments with initial terms greater than one year at December 31, 2010:

(in thousands)	<u>Amount</u>
Year ending December 31:	
2011	\$ 1,883
2012	1,038
2013	528
2014	60
Thereafter	—
Total operating lease commitments	<u>\$ 3,509</u>

Non-level Rents and Lease Incentives

Some of our leases are subject to rent escalations. For these leases, we recognize rent expense for the total contractual obligation utilizing the straight-line method over the lease term, ranging from 12 to 73 months. The related short term liability is recorded in other accrued expenses (see Note 11) and the related long term liability is recorded in other long term liabilities. The total liability related to rent escalations was \$0.03 million at both December 31, 2010 and 2009.

The lease agreement for our corporate headquarters contains an allowance for tenant improvements of \$0.4 million, which was paid to us upon completion of the renovation in 2008. This tenant improvement allowance is being amortized as a credit against rent expense over the 73 month term of the lease, which began on January 1, 2006.

The lease agreement for our customer call center contains an allowance for tenant improvements of \$0.2 million, which was paid to us upon completion of the renovation in 2007. This tenant improvement allowance is being amortized as a credit against rent expense over the 48 month term of the lease, which began on June 1, 2007.

Rental Costs During Construction

Rental costs associated with building and ground operating leases incurred during a construction period are expensed.

Prepaid Leases

Private ownership of land in the People's Republic of China ("PRC") is not allowed. All land in the PRC is owned by the government and cannot be sold to any individual or entity. Land use rights are allocated for free, granted or transferred for consideration by the PRC State Land Administration Bureau or its authorized branches. Our subsidiary Enson Assets Limited, which we acquired on November 4, 2010, operates two factories within the PRC on which the land is leased from the government. These land leases were prepaid to the PRC government at the time Enson occupied the land. We have obtained land-use right certificates for the land pertaining to the two factories. In addition, Enson has obtained government approval to develop a parcel of land, for which we are in the process of obtaining a land-use right certificate. We have also prepaid the lease for this parcel of land.

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The first factory is located in the Guang Dong Province, PRC within the city of Guang Zhou. The unamortized value of this prepaid lease is \$1.7 million on December 31, 2010, and will be amortized on a straight-line basis over the remaining term of approximately 34 years. The buildings located on this land have a net book value of \$16.6 million on December 31, 2010 and are being amortized over an estimated remaining life of approximately 21 years.

The second factory is located in Jiang Su Province, PRC within the city of Yang Zhou. The remaining net book value of this prepaid lease is \$3.0 million on December 31, 2010, and will be amortized on a straight-line basis over the remaining term of approximately 47 years. The buildings located on this land have a net book value of \$18.5 million on December 31, 2010 and are being amortized over an estimated remaining life of 21 years. In addition, the facility under construction located on this land has a net book value of \$2.2 million on December 31, 2010 and will be amortized over an estimated remaining life of 25 years upon completion. We estimate this construction-in-process will be placed into service during the first quarter of 2011.

Note 13 — Commitments and Contingencies

Indemnifications

We indemnify our directors and officers to the maximum extent permitted under the laws of the State of Delaware and we have entered into Indemnification Agreements with each of our directors and executive officers. In addition, we insure our individual directors and officers against certain claims and attorney's fees and related expenses incurred in connection with the defense of such claims. The amounts and types of coverage may vary from period to period as dictated by market conditions. Management is not aware of any matters that require indemnification of its officers or directors.

Fair Price Provisions and Other Anti-Takeover Measures

Our Restated Certificate of Incorporation, as amended, contains certain provisions restricting business combinations with interested stockholders under certain circumstances and imposing higher voting requirements for the approval of certain transactions ("fair price" provisions). Any of these provisions may delay or prevent a change in control. The "fair price" provisions require that holders of at least two-thirds of the outstanding shares of voting stock approve certain business combinations and significant transactions with interested stockholders.

Product Warranties

Changes in the liability for product warranty claim costs are presented below:

(in thousands) Description	Balance at Beginning of Period	Accruals for Warranties Issued During the Period(1)	Settlements (in Cash or in Kind) During the Period	Balance at End of Period
Year Ended December 31, 2010	\$ 82	\$ 4	\$ (15)	\$ 71
Year Ended December 31, 2009	\$ 90	\$ (4)	\$ (4)	\$ 82
Year Ended December 31, 2008	\$ 178	\$ (31)	\$ (57)	\$ 90

Litigation

On December 22, 2010, Patent Group LLC as "Relator" filed in the U.S. District Court for the Eastern District of Texas a *Qui Tam* complaint against us and others under Section 292, Title 35 of the United States Code, seeking recovery for penalties payable to the United States claiming that we intentionally falsely marked certain of our remote control products with expired or non-applicable patents. We have not yet answered this complaint, however we intend to do so denying all of Patent Group's material allegations. In addition, the parties are engaged in preliminary settlement discussions.

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There are no other material pending legal proceedings, other than immaterial matters that are 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 we intend to vigorously defend ourselves against them.

Long-Term Incentive Plan

During the second quarter of 2007, we adopted an Executive Long-Term Incentive Plan (“ELTIP”). The ELTIP provided a bonus pool for our executive management team contingent on achieving certain performance goals during a two-year performance period commencing on January 1, 2007 and ending on December 31, 2008. The performance goals were based on the compound annual growth rate of net sales and earnings per diluted share during the performance period. The ELTIP had a maximum pay out of \$12 million if the highest performance goals were met. Management did not earn a bonus under the ELTIP based on our results through December 31, 2008. As a result, we lowered our ELTIP accrual from \$1.0 million at December 31, 2007 to \$0 at December 31, 2008. This adjustment resulted in a \$1.0 million benefit to pre-tax income for the twelve months ended December 31, 2008.

In light of the ELTIP results, during the first quarter of 2009 our Compensation Committee awarded a discretionary cash bonus of \$1.0 million, to be paid out quarterly during 2009 and 2010. The Compensation Committee made this decision after reviewing the economic environment and our relative financial and operating performance. The Compensation Committee believes this bonus is in alignment with our stockholders’ interests as well as our performance, alignment and retention objectives. Each participant’s earned award vested in eight equal quarterly installments beginning March 31, 2009 and ending December 31, 2010. Approximately \$0.5 million and \$0.3 million was paid and expensed, respectively, during each of the years ended December 31, 2010 and 2009. At December 31, 2010 and 2009, \$0 and \$0.3 million, respectively, have been included in accrued compensation for this discretionary bonus.

Non-Qualified Deferred Compensation Plan

We have adopted a non-qualified deferred compensation plan for the benefit of a select group of highly compensated employees. For each plan year a participant may elect to defer compensation in fixed dollar amounts or percentages subject to the minimums and maximums established under the plan. Generally, an election to defer compensation is irrevocable for the entire plan year. A participant is always fully vested in their elective deferrals and may direct these funds into various investment options available under the plan. These investment options are utilized for measurement purposes only, and may not represent the actual investment made by us. In this respect, the participant is an unsecured creditor of ours. At December 31, 2010, the amounts deferred under the plan were immaterial to our financial statements.

Defined Benefit Plan

Our subsidiary in India maintains a defined benefit pension plan (“India Plan”) for local employees, which is consistent with local statutes and practices. The pension plan was adequately funded on December 31, 2010 based on its latest actuarial report. The India Plan has an independent external manager that advises us of the appropriate funding contribution requirements to which we comply. At December 31, 2010, approximately 20 percent of our India subsidiary employees had qualified for eligibility. Generally, an employee must be employed by our India subsidiary for a minimum of five years before becoming eligible. At the time of eligibility we are liable, on termination, resignation or retirement, to pay the employee an amount equal to fifteen days salary for each full year of service completed. The total amount of liability outstanding at December 31, 2010 and 2009 for the India Plan is not material. During the years ended December 31, 2010 and 2009, the net periodic benefit costs were also not material.

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Note 14 — Treasury Stock

During the years ended December 31, 2010, 2009 and 2008, we repurchased 505,692, 404,643 and 1,118,318 shares of our common stock at a cost of \$10.1 million, \$7.7 million and \$26.7 million, respectively. Repurchased shares are recorded as shares held in treasury at cost. We generally hold these shares for future use as management and the Board of Directors deem appropriate, which has included compensating our outside directors. During the years ended December 31, 2010, 2009 and 2008, we issued 29,583, 25,000 and 23,438 shares from treasury, respectively, to outside directors for services performed (see Note 16).

On February 11, 2010, our Board of Directors authorized management to continue repurchasing up to an additional 1,000,000 shares of our issued and outstanding common stock. Repurchases may be made whenever we deem a repurchase is a good use of our cash and the price to be paid is at or below a threshold approved by our Board. As of December 31, 2010, we have repurchased 473,126 shares of our common stock under this authorization, leaving 526,874 shares available for repurchase.

Stock Awards to Outside Directors

We issue restricted stock awards to our outside directors as compensation for services performed. We grant each of our outside directors 5,000 shares of our common stock annually each July 1st. When an additional outside director is appointed to our Board of Directors, they receive a prorated number of shares based on the number of months they will serve during the initial year. Compensation expense related to restricted stock awards is based on the grant date fair value the shares awarded. The fair value of these shares is amortized on a straight-line basis over the requisite service period of one year (see Note 2 under the caption *Stock-Based Compensation* and Note 16). The shares are issued from treasury stock using a first-in-first-out cost basis, which amounted to \$0.4 million and \$0.4 million in 2010 and 2009, respectively.

Note 15 — Business Segment and Foreign Operations

Reportable Segment

An operating segment, in part, is 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 a limited extent. We operate in a single operating and reportable segment.

Our chief operating decision maker, the Chief Executive Officer, reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues for purposes of making operating decisions and assessing financial performance. Accordingly, we consider ourselves to be a single reporting segment.

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Foreign Operations

Our net sales to external customers by geographic area for the years ended December 31, 2010, 2009 and 2008 were the following:

(in thousands)	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net sales:			
United States	\$ 119,284	\$ 142,876	\$ 114,429
International:			
Peoples Republic of China	34,222	27,791	34,482
United Kingdom	41,575	21,756	21,239
Argentina	4,791	1,544	3,299
Australia	1,451	1,558	4,190
Brazil	1,791	1,904	1,497
Canada	13,419	11,586	11,064
France	3,768	3,603	5,359
Germany	7,996	6,752	7,771
Israel	3,161	1,941	2,633
Italy	2,474	3,471	2,608
Japan	10,724	3,162	3,252
Korea	6,325	6,771	3,824
Malaysia	1,806	1,439	2,713
Netherlands	2,094	755	975
Portugal	4,641	4,167	1,780
Singapore	16,419	8,505	9,433
Spain	4,480	3,929	7,523
South Africa	5,900	6,495	5,827
Taiwan	12,426	18,315	19,346
Thailand	10,582	7,939	4,235
All other	22,451	31,291	19,621
Total international	<u>212,496</u>	<u>174,674</u>	<u>172,671</u>
Total net sales	<u>\$ 331,780</u>	<u>\$ 317,550</u>	<u>\$ 287,100</u>

Specific identification of the customer location was the basis used for attributing revenues from external customers to individual countries.

Long-lived asset information on December 31, 2010, 2009 and 2008 were the following:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Long-lived tangible assets:			
United States	\$ 4,654	\$ 4,899	\$ 4,251
Peoples Republic of China	75,053	3,677	3,150
All other countries	3,854	2,558	1,894
Total	<u>\$ 83,561</u>	<u>\$ 11,134</u>	<u>\$ 9,295</u>

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Note 16 — Stock-Based Compensation

Stock-based compensation expense for each employee and director is presented in the same income statement caption as their cash compensation. Stock-based compensation expense by income statement caption for the years ended December 31, 2010, 2009 and 2008 is the following:

(in thousands)	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cost of sales	\$ 55	\$ 33	\$ 17
Research and development	452	434	356
Selling, general and administrative	4,459	3,845	3,870
Total stock-based compensation expense	<u>\$ 4,966</u>	<u>\$ 4,312</u>	<u>\$ 4,243</u>

Selling, general and administrative expense includes pre-tax stock-based compensation related to stock option awards granted to outside directors of \$0.3 million, \$0.3 million, and \$0.2 million for the years ended December 31, 2010, 2009, and 2008, respectively. Selling, general and administrative expense includes stock-based compensation related to restricted stock awards granted to outside directors of \$0.6 million, \$0.5 million, \$0.6 million for the years ended December 31, 2010, 2009, and 2008, respectively.

The income tax benefit from the recognition of stock-based compensation was \$1.7 million, \$1.5 million, and \$1.5 million for the years ended December 31, 2010, 2009, and 2008, respectively.

Stock Options

During the year ended December 31, 2010 the Compensation Committee and Board of Directors granted 119,900 stock options to our employees with an aggregate grant date fair value of \$1.3 million under various stock incentive plans. The stock options granted to employees during 2010 consisted of the following:

(in thousands, except share amounts)

<u>Stock Option Grant Date</u>	<u>Number of Shares Underlying Options</u>	<u>Grant Date Fair Value</u>	<u>Vesting Period</u>
January 25, 2010	99,900	\$1,134	4 -Year Vesting Period (0% each quarter during year 1 and 8.33% each quarter during years 2-4)
July 14, 2010	20,000	164	4 -Year Vesting Period (25% each quarter)
	<u>119,900</u>	<u>\$1,298</u>	

During the year ended December 31, 2010 we recognized \$0.3 million of pre-tax stock-based compensation expense related to our 2010 stock option grants.

The assumptions we utilized in the Black-Scholes option pricing model and the resulting weighted average fair value of stock option grants were the following:

	<u>December 31,⁽¹⁾</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Weighted average fair value of grants	\$ 10.83	\$ 7.20	\$ 9.08
Risk-free interest rate	2.27%	1.95%	2.75%
Expected volatility	50.07%	49.54%	40.85%
Expected life in years	4.95	4.85	4.74

(1) The weighted average fair value of grants was calculated utilizing the stock options granted during each respective period.

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We recognize the compensation expense related to stock option awards net of estimated forfeitures over the service period of the award, which is generally the option vesting term of three to four years. On December 31, 2010, 2009, and 2008, we estimated the annual forfeiture rate for our executives and board of directors will be 2.53%, 2.65%, and 2.66%, respectively, based upon our historical forfeitures. On December 31, 2010, 2009, and 2008, we estimated the annual forfeiture rate for our non-executive employees to be 6.59%, 6.51%, and 6.31%, respectively, based on our historical forfeitures.

Stock option activity during the years ended December 31, 2010, 2009 and 2008 were the following:

	2010				2009				2008			
	Number of Options (in 000's)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in 000's)	Number of Options (in 000's)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in 000's)	Number of Options (in 000's)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in 000's)
Outstanding at beginning of the year	1,693	\$ 18.37			1,729	\$ 17.64			1,739	\$ 16.83		
Granted	120	23.80			253	16.26			140	23.46		
Exercised	(121)	16.20		\$ 1,238	(278)	11.75		\$ 2,320	(114)	10.19		\$ 1,562
Forfeited/cancelled/expired	(167)	20.16			(11)	22.43			(36)	24.70		
Outstanding at end of year	<u>1,525</u>	\$ 18.78	5.37	\$ 14,669	<u>1,693</u>	\$ 18.37	5.40	\$ 9,677	<u>1,729</u>	\$ 17.64	5.06	\$ 3,045
Vested and expected to vest at end of year	1,503	\$ 18.72	5.32	\$ 14,547	1,655	\$ 18.30	5.33	\$ 9,532	1,688	\$ 17.42	4.98	\$ 3,045
Exercisable at end of year	1,140	\$ 17.89	4.46	\$ 11,983	1,239	\$ 17.33	4.30	\$ 8,034	1,267	\$ 15.34	3.97	\$ 3,044

The aggregate intrinsic value in the table above represents the total pre-tax value (the difference between our closing stock price on the last trading day of 2010, 2009 and 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had they all exercised their options on December 31, 2010, 2009 and 2008. This amount will change based on the fair market value of our stock. The actual intrinsic value of stock options exercised in 2010, 2009 and 2008 was \$1.2 million, \$2.3 million and \$1.6 million, respectively.

During 2010, 2009 and 2008, there were no modifications made to outstanding stock options.

Cash received from option exercises for the years ended December 31, 2010, 2009 and 2008 was \$2.0 million, \$3.3 million and \$1.2 million, respectively. The actual tax benefit realized from option exercises of the share-based payment awards was \$0.2 million, \$0.4 million and \$0.4 million for the years ended December 31, 2010, 2009 and 2008, respectively.

As of December 31, 2010, we expect to recognize \$2.2 million of total unrecognized pre-tax stock-based compensation expense related to non-vested stock options over a remaining weighted-average life of 2.3 years.

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Restricted Stock

During the year ended December 31, 2010, the Compensation Committee and Board of Directors granted 45,500 restricted stock awards to our employees with an aggregate grant date fair value of \$1.1 million under the 2006 Stock Incentive Plan. The restricted stock awards granted to employees during 2010 consisted of the following:

(in thousands, except share amounts)

<u>Restricted Stock Grant Date</u>	<u>Number of Shares Granted</u>	<u>Grant Date Fair Value</u>	<u>Vesting Period</u>
January 25, 2010	45,500	\$1,133	4 -Year Vesting Period (0% each quarter during year 1 and 8.33% each quarter during years 2-4)

In addition to the grants to employees, 30,000 shares of restricted stock with a grant date fair value of \$0.5 million were granted to our outside directors on July 1, 2010 as a part of their annual compensation package. These shares are subject to a one-year vesting period (25% each quarter).

During the year ended December 31, 2010, we recognized \$0.5 million of pre-tax stock-based compensation expense related to our 2010 restricted stock grants.

Non-vested restricted stock award activity during the years ended December 31, 2010, 2009 and 2008 (including restricted stock issued to directors as described in Note 14) were the following:

	<u>Shares Granted (in 000's)</u>	<u>Weighted- Average Grant Date Fair Value</u>
Non-vested at December 31, 2007	10	\$ 36.25
Granted	142	23.15
Vested	(62)	25.15
Forfeited	—	—
Non-vested at December 31, 2008	90	23.23
Granted	326	15.58
Vested	(136)	18.66
Forfeited	—	—
Non-vested at December 31, 2009	280	16.54
Granted	76	21.58
Vested	(160)	18.00
Forfeited	(1)	16.61
Non-vested at December 31, 2010	<u>195</u>	<u>\$ 17.30</u>

As of December 31, 2010, we expect to recognize \$2.9 million of total unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards over a weighted-average life of 1.7 years. See Note 2 under the caption *Stock-Based Compensation* for further information regarding our accounting principles.

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Stock Incentive Plans

Our active stock-based incentive plans include those adopted in 1993, 1996, 1998, 1999, 2002, 2003, 2006 and 2010 (“stock incentive plans”). Under the stock incentive plans, we may grant stock options, stock appreciation rights, restricted stock units, performance stock units, or any combination thereof for a period of ten years from the approval date of each respective plan, unless the plan is terminated by resolution of our Board of Directors. No stock appreciation rights or performance stock units have been awarded under our stock incentive plans. Only directors and employees meeting certain employment qualifications are eligible to receive stock-based awards.

The grant price of stock options and restricted stock awards granted under our stock incentive plans is the average of the high and low trades of our stock on the grant date. We prohibit the re-pricing or backdating of stock options. Our stock options become exercisable ratably, on an annual or quarterly basis, over four years. Stock options have a maximum ten-year term. Restricted stock awards vest in various proportions over a three or four year time period.

Detailed information regarding our active stock incentive plans is as follows:

Name	Approval Date	Initial Shares Available for Grant Under the Plan	Remaining Shares Available for Grant Under the Plan	Outstanding Shares Granted Under the Plan
1993 Stock Incentive Plan	1/19/1993	400,000	—	17,400
1996 Stock Incentive Plan	12/1/1996	800,000	—	20,834
1998 Stock Incentive Plan	5/27/1998	630,000	—	55,281
1999 Stock Incentive Plan	1/27/1999	630,000	—	6,510
1999A Stock Incentive Plan	10/7/1999	1,000,000	—	80,997
2002 Stock Incentive Plan	2/5/2002	1,000,000	481	316,720
2003 Stock Incentive Plan	6/18/2003	1,000,000	5,563	569,470
2006 Stock Incentive Plan	6/13/2006	1,000,000	84,031	650,491
2010 Stock Incentive Plan	6/15/2010	1,000,000	1,000,000	—
			<u>1,090,075</u>	<u>1,717,703</u>

Significant option groups outstanding at December 31, 2010 and the related weighted average exercise price and life information are listed below:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding At 12/31/2010 (in 000's)	Weighted-Average Remaining Years of Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 12/31/2010 (in 000's)	Weighted-Average Exercise Price
\$8.45 to \$9.83	116	1.89	\$ 8.62	116	\$ 8.62
12.58 to 13.27	208	3.75	12.62	191	12.60
14.85 to 16.78	381	5.48	16.17	258	16.15
17.11 to 17.62	237	4.05	17.58	237	17.58
18.03 to 21.95	163	7.12	20.38	103	20.36
23.66 to 28.08	413	7.10	26.92	229	27.70
32.40 to 35.35	7	6.94	34.51	6	34.32
	<u>1,525</u>	5.37	\$ 18.78	<u>1,140</u>	\$ 17.89

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Note 17 — Other Income (Expense), Net

Other income (expense), net consisted of the following:

(in thousands)	2010	2009	2008
Net gain (loss) on foreign currency exchange transactions	\$ 239	\$ (246)	\$ 315
Other income (expense)	284	5	(4)
Other income (expense), net	<u>\$ 523</u>	<u>\$ (241)</u>	<u>\$ 311</u>

Note 18 — Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and dilutive potential common shares, including the dilutive effect of stock options and restricted stock grants, outstanding during the period. 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 years ended December 31, 2010, 2009 and 2008, we have excluded 517,827, 785,186 and 534,418 stock options, respectively, with exercise prices greater than the average market price of the underlying common stock, because their inclusion would have been anti-dilutive. Furthermore, for the years ended December 31, 2010, 2009 and 2008, we have excluded 159,889, 235,887 and 105,944 of shares of restricted stock, respectively, whose combined unamortized fair value and excess tax benefits were greater in each of those periods than the average market price of the underlying common stock, as their effect would be anti-dilutive.

Earnings per share for the years ended December 31, 2010, 2009 and 2008 were calculated as follows:

(in thousands, except per-share amounts)	2010	2009	2008
BASIC			
Net income	\$ 15,081	\$ 14,675	\$ 15,806
Weighted-average common shares outstanding	13,764	13,667	14,015
Basic earnings per share	<u>\$ 1.10</u>	<u>\$ 1.07</u>	<u>\$ 1.13</u>
DILUTED			
Net income	\$ 15,081	\$ 14,675	\$ 15,806
Weighted-average common shares outstanding for basic	13,764	13,667	14,015
Dilutive effect of stock options and restricted stock	342	304	441
Weighted-average common shares outstanding on a diluted basis	14,106	13,971	14,456
Diluted earnings per share	<u>\$ 1.07</u>	<u>\$ 1.05</u>	<u>\$ 1.09</u>

Note 19 — Derivatives*Derivatives Measured at Fair Value on a Recurring Basis*

We are exposed to market risks from foreign currency exchange rates, which may adversely affect our operating results and financial position. Our foreign currency exposures are primarily concentrated in the Brazilian Real, British Pound, Chinese Yuan Renminbi, Euro, Hong Kong dollar, Indian Rupee, and Singapore dollar. 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, cash flows and reported income. Derivative financial instruments are used to manage risk and are not used for trading or other speculative purposes. We do not use leveraged derivative financial instruments and 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 income (expense), net. Derivatives are recorded on

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the balance sheet at fair value. The estimated fair values of our derivative financial instruments represent the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices.

We have determined that the fair value of our derivatives is derived from level 2 inputs in the fair value hierarchy (see Note 2 under the captions *Derivatives* and *Fair-Value* Measurements for further information concerning the accounting principles and valuation methodology utilized). The following table sets forth our financial assets that were accounted for at fair value on a recurring basis on December 31, 2010:

(In thousands) Description	December 31, 2010	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreign currency exchange futures contracts	\$ 20	\$ —	\$ 20	\$ —
	<u>\$ 20</u>	<u>\$ —</u>	<u>\$ 20</u>	<u>\$ —</u>

We held foreign currency exchange contracts which resulted in a net pre-tax loss of approximately \$0.3 million for the year ended December 31, 2010, a net pre-tax loss of approximately \$0.7 million for the year ended December 31, 2009 and a net pre-tax loss of \$0.5 million for the year ended December 31, 2008.

Futures Contracts

We held one USD/Euro futures contract with a notional value of \$4.0 million and a forward rate of \$1.3073 USD/Euro at December 31, 2010. We held the Euro position on this contract, which settled on January 28, 2011. The gain on this contract as of December 31, 2010 was \$87 thousand and is included in prepaid expenses and other current assets. This contract was settled at a gain of \$198 thousand resulting in a gain of \$111 thousand in January 2011.

We held one USD/Indian Rupee futures contract with a notional value of INR133.5 million and a forward rate of INR45.47 INR/USD at December 31, 2010. We held the USD position on this contract, which settled on January 28, 2011. The loss on this contract as of December 31, 2010 was \$43 thousand and is included in other accrued expenses. This contract was settled at a gain of \$10 thousand resulting in a gain of \$53 thousand in January 2011.

We held one USD/Chinese Yuan Renminbi futures contract with a notional value of \$1.0 million and a forward rate of CNY6.6819 CNY/USD at December 31, 2010. We held the USD position on this contract, which settled on January 24, 2011. The loss on this contract as of December 31, 2010 was \$11 thousand and is included in other accrued expenses. This contract was settled at a loss of \$14 thousand resulting in a loss of \$3 thousand in January 2011.

We held one USD/Chinese Yuan Renminbi futures contract with a notional value of \$1.0 million and a forward rate of CNY6.6681 CNY/USD at December 31, 2010. We held the USD position on this contract, which was scheduled to settle on February 24, 2011. The contract was terminated on January 21, 2011. The loss on this contract as of December 31, 2010 was \$13 thousand and is included in other accrued expenses. This contract was settled on the termination date at a loss of \$16 thousand resulting in a loss of \$3 thousand in January 2011.

We held one USD/Euro futures contract with a notional value of \$1.5 million and a forward rate of \$1.4386 USD/Euro at December 31, 2009. We held the Euro position on this contract, which settled on January 15, 2010. The loss on this contract as of December 31, 2009 was \$5 thousand and is included in other accrued expenses. This contract was settled at a gain of \$11 thousand resulting in a gain of \$16 thousand in January 2010.

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Put Option

We entered into a USD/GBP put option with a notional value of \$4.3 million in July 2009. The strike price of the put is \$1.64 USD/GBP. The contract expired on December 31, 2009 and settled on January 5, 2010. The loss recorded related to this contract was \$138 thousand during the year ended December 31, 2009. The fair value of this put option was approximately \$2 thousand at December 31, 2009 and is included in accounts receivable, net (see Note 4).

Note 20 — Employee Benefit Plans

We maintain a retirement and profit sharing plan under Section 401(k) of the Internal Revenue Code for all of our domestic employees that meet certain qualifications. Participants in the plan may elect to contribute up to the maximum allowed by law. We match 50% of the participants' contributions up to 15% of their gross salary in the form of newly issued shares of our common stock. We may also make other discretionary contributions to the plan. We recorded \$0.6 million, \$0.8 million, and \$0.7 million of expense for company contributions for the years ended December 31, 2010, 2009 and 2008, respectively.

Note 21 — Business Combinations

Enson Assets Limited

On November 3, 2010, our subsidiary, UEI Hong Kong Private Limited, entered into a stock purchase agreement with CG International Holdings Limited ("CG") to acquire all of the issued shares in the capital of Enson Assets Limited ("Enson") for total consideration of approximately \$125.8 million. This transaction closed on November 4, 2010. The consideration consisted of \$95.0 million in cash and 1,460,000 of newly issued shares of UEI common stock. A total of \$5.0 million of the purchase price was held back at the closing to provide for any additional payments required by CG as a result of Enson's failure to meet both a net asset target and an earnings target (see "*Contingent Consideration*" below). We have included the \$5.0 million that was held back in the purchase price allocation, since it is probable that we will owe the full amount to CG. The \$5.0 million is included in our other accrued liabilities balance at December 31, 2010.

Our consolidated income statement for the twelve months ended December 31, 2010 includes net sales of \$25.0 million and net income of \$1.3 million attributable to Enson for the period commencing on November 4, 2010.

Enson Description

Enson is a leading manufacturer of remote controls. Prior to the acquisition Enson was also one of our significant suppliers (see Note 5). During the years ended December 31, 2010, 2009 and 2008 Enson supplied 20.5%, 24.1% and 20.6% of our inventory purchases. The Enson corporate office, located in Hong Kong, is approximately 6,000 square feet and employs 50 people. Enson controls two factories located in the Peoples Republic of China ("PRC").

The southern factory is located in Guang Dong Province, PRC within the city of Guang Zhou. The Guang Zhou factory is approximately 710,203 square feet and employs 787 people, with an additional 4,393 factory workers contracted through an agency agreement.

The northern factory is located in Jiang Su Province, PRC within the city of Yang Zhou. The Yang Zhou factory is approximately 1,204,697 square feet and employs 418 people, with an additional 4,502 factory workers contracted through an agency agreement.

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Consideration

The sources of the consideration were the following:

(In thousands) Source Description	Amount	Percentage of Consideration
Existing cash and cash equivalents	\$ 54,000	42.9%
Funds from new U.S. Bank Secured Term Loan (see Note 8)	35,000	27.8
Funds from new U.S. Bank Secured Revolving Credit Line (see Note 8)	6,000	4.8
Newly issued shares of Universal Electronics Inc. common stock	30,762	24.5
	<u>\$ 125,762</u>	<u>100%</u>

*Contingent Consideration**Net Asset Target on November 3, 2010*

To the extent that the Enson net assets were less than \$68.5 million at November 3, 2010, CG would have paid us the difference, plus interest. To the extent that the Enson net assets were greater than \$68.5 million we would have had to pay CG the difference, plus interest. We are currently in the process of determining if certain adjustments recorded in accordance with generally accepted accounting principles will be included in determining Enson's net asset position on November 3, 2010 as defined by the stock purchase agreement. We expect this calculation to be completed in the first quarter of 2011.

Earnings Target for the Twelve Months Ending March 31, 2011

To the extent that Enson's earnings for the year ended March 31, 2011 are less than \$16.2 million, CG will pay us an amount equal to the product of (a) the difference between Enson's earnings and \$16.2 million, multiplied by (b) one and one half, plus interest. Interest will be calculated on the date the auditors' report is issued on Enson's accounts using the prime rate as reported in The Wall Street Journal on the date of this determination. CG is required to make this payment within five business days of the issuance of the auditor's report on Enson's accounts.

For the purposes of this calculation, Enson's earnings are defined as Enson's consolidated profit before tax for the twelve months ending March 31, 2011 excluding certain agreed upon adjustments, including without limitation, the following items: profit related to UEIC sales, investment income, other income, other expenses, other gains and losses and interest expenses.

On the date of this filing, we do not anticipate that any amounts will be owed by CG on March 31, 2011.

Acquisition Costs

We recognized \$0.7 million of total acquisition costs related to the Enson transaction in selling, general and administrative expenses during the year ended December 31, 2010. The acquisition costs consisted primarily of legal and investment banking services.

In addition to the costs incurred to acquire Enson, during January 2011 our Compensation Committee approved a discretionary bonus of \$0.4 million to be awarded to certain employees directly involved in the acquisition process. This discretionary bonus was ratified by our Board of Directors during February 2011, and was paid during March 2011. The entire amount was included in accrued compensation at December 31, 2010.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Preliminary Purchase Price Allocation

Under the acquisition method of accounting, the acquisition date fair value of the consideration transferred is allocated to the net tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date. Management's preliminary purchase price allocation on November 4, 2010 (the Enson acquisition date) is the following:

(in thousands)	<u>Weighted Average Estimated Lives</u>	<u>Preliminary Fair Value</u>
Cash & cash equivalents		\$ 20,866
Inventories		23,469
Accounts receivable		37,624
Prepaid expenses and other current assets		738
Property, plant and equipment	20 years	66,644
Deferred income taxes		2,979
Other assets		3,409
Interest bearing liabilities		(4,227)
Non-interest bearing liabilities		(67,879)
Net tangible assets acquired		83,623
Customer relationships	10 years	23,300
Trademark and trade name	10 years	2,000
Goodwill		16,839
Total estimated purchase price		<u>\$ 125,762</u>

Management's preliminary determination of the fair value of the tangible and intangible assets acquired and liabilities assumed are based on estimates and assumptions that are subject to change. During the measurement period, if information becomes available which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively. The measurement period can extend as long as one year from the acquisition date. We are currently evaluating certain tax matters that once completed may result in an adjustment to goodwill. In addition, as noted above, we are also evaluating the results of the net asset target as defined in the stock purchase agreement.

Intangible Assets Subject to Amortization

Of the total estimated purchase price, \$83.6 million has been allocated to net tangible assets acquired, \$16.8 million has been allocated to goodwill, and \$25.3 million has been allocated to identifiable intangible assets acquired. The identified intangible assets consist of \$23.3 million assigned to customer relationships and \$2.0 million assigned to trademark and trade name.

The fair value of Enson's customer relationships intangible asset was estimated utilizing the income approach. We estimated the future after tax cash flows attributable to Enson's customer base, after taking into consideration projected attrition based on our analysis of UEI and Enson customer data. These cash flows were discounted back to the acquisition date to arrive at the estimated fair value of the customer relationships intangible. UEI expects to amortize the fair value of Enson's customer relationships on a straight-line basis over an estimated life of ten years. The customer relationships amortization will not be deductible for tax purposes.

The fair value assigned to Enson's trademark and trade name intangible asset was determined utilizing the income approach. The estimated future after tax cash flows from Enson's trademark and trade name were discounted back to the acquisition date to arrive at the estimated fair value of the trademark and trade name. UEI expects to amortize the value of Enson's trademark and trade name on a straight-line basis over an estimated life of ten years. The trademark and trade name amortization will not be deductible for tax purposes.

UNIVERSAL ELECTRONICS INC.
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Goodwill

Goodwill represents the excess of the purchase consideration over the estimated fair value of identifiable tangible and intangible assets acquired. Goodwill from this transaction of \$16.8 million will not be amortized, but will be analyzed for impairment on at least an annual basis in accordance with U.S. GAAP. We review our goodwill for impairment annually on December 31 and whenever events or changes in circumstances indicate that an impairment loss may have occurred. Of the total goodwill recorded, none is expected to be deductible for tax purposes.

The goodwill recognized is attributable to the following value we received from the Enson acquisition:

- Enson should increase our market position in the strategically important consumer electronics market given Enson's historic strength with leading Japanese consumer electronics companies. We have not been well positioned in this market historically.
- Enson currently produces approximately one-third of our finished good inventory purchases, therefore, we may decrease purchases from third parties. In addition, Enson has available manufacturing capacity. We may provide Enson the ability to increase the utilization of their existing factories.
- We may utilize Enson's in-place management and personnel to assist us in implementing our plan to place more operations, logistics, quality, program management, engineering, sales, and marketing personnel in the Asia region.
- Enson's full line of remotes, from dedicated to higher-end universal, should assist us with further penetrating the growing Asian and Latin American subscription broadcasting markets. The lower subscriber revenue in these markets can cause them to begin with lower-cost dedicated remotes and to later transition to universal remote controls.

Management has determined that the goodwill recognized as a result of the Enson acquisition will be assigned to our sole reporting unit.

Zilog, Inc.

On February 18, 2009, we acquired certain patents, intellectual property and other assets related to the universal remote control business from Zilog, Inc. (NASDAQ: ZILG) for approximately \$9.5 million in cash. The purchase included Zilog's full library and database of infrared codes, software tools and certain fixed assets. We also hired 116 of Zilog's sales and engineering personnel, including all 107 of Zilog's personnel located in India. In a related transaction, Maxim Integrated Products (NASDAQ: MXIM) acquired two of Zilog's product lines, namely, the hardware portion of Zilog's remote control business and Zilog's secured transaction product line.

We have cross-licensed the remote control technology and intellectual property with Maxim Integrated Products for the purpose of conducting our respective businesses. The arrangement involves an agreement to source silicon chips from Maxim. In addition, during 2009 we agreed to be Maxim's exclusive sales agent, selling the Zilog designs to Zilog's former customers, in return for a sales agency fee. The sales agency fee during the years ended December 31, 2010 and 2009 was \$4.1 million and \$4.4 million, respectively. During 2011, as we continue to slowly transition from the Zilog chip platform to the Maxim chip platform, we will progressively take over full sales and distribution rights, procuring and selling the chips directly to Zilog's former customers. We anticipate this transition will lead to growth in revenue and earnings going forward. Our consolidated financial statements include the operating results of the acquired assets, employees hired, and the related agreement with Maxim from February 18, 2009.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The total purchase price of approximately \$9.5 million has been allocated to the net assets acquired based on their estimated fair values as follow:

(In thousands)	
Intangible assets:	
Database	\$ 3,500
Customer relationships	3,100
Goodwill	2,902
Property, plant, and equipment	44
Purchase price	<u>\$ 9,546</u>

Intangible Assets Subject to Amortization

Of the total purchase price, approximately \$6.6 million was allocated to identifiable intangible assets subject to amortization including the database and customer relationships.

The database intangible is composed of the estimated fair value of patents, intellectual property and other assets related to Zilog's database of infrared codes, and software tools. When determining the fair value of the database, we utilized the cost approach. In our valuation, we estimated the total costs to recreate the database, including the associated opportunity costs (or revenue lost while recreating). We discounted the after-tax cash flows to present value to arrive at our estimate of the fair value of the database. We are amortizing the database on a straight-line basis over an estimated useful life of approximately fifteen years.

The customer relationship intangible is composed of the fair value of customer relationships acquired as a result of the Zilog purchase. We utilized the income approach to estimate the fair value of the customer relationships intangible. We developed after-tax cash flows based on forecasted revenue from these customers assuming a customer attrition rate based on our analysis of customer data for UEI and Zilog. We discounted the after-tax cash flows to present value to arrive at our estimate of the fair value of the customer relationships intangible. We are amortizing the customer relationships intangible on a straight-line basis over an estimated useful life of approximately fifteen years.

Goodwill

Goodwill represents the excess of the cost (purchase price) over the estimated fair value of identifiable tangible and intangible assets acquired. Goodwill from this transaction of \$2.9 million will not be amortized, but will be analyzed for impairment at least on an annual basis in accordance with U.S. GAAP. We review our goodwill for impairment annually on December 31 and whenever events or changes in circumstances indicate that an impairment loss may have occurred. We have not recorded any impairment related to the goodwill recognized as a result of the Zilog acquisition. Of the total goodwill recorded, none is expected to be deductible for tax purposes.

The goodwill recognized is attributable to the following value we received from this acquisition:

- This acquisition will expand the breadth and depth of our customer base in both subscription broadcasting and original equipment manufacturing, particularly in Asia.
- We believe integrating Zilog's technologies with and into our own technology will reduce design cycle times, lower costs, and lead to improvements in our integrated circuit design, product quality and overall functional performance.
- The acquisition of former Zilog employees will allow us to leverage their experience to our advantage in the wireless control industry.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Acquisition Costs

We recognized \$1.1 million of total acquisition costs related to the Zilog transaction in selling, general and administrative expenses during the year ended December 31, 2009. The acquisition costs consisted primarily of legal and investment banking services. Of the \$1.1 million of acquisition costs recognized during the year ended December 31, 2009, \$0.1 million was deferred at December 31, 2008.

Pro forma Results (Unaudited)

The following unaudited pro forma financial information presents the combined results of our operations and the operations of the Enson acquisition and the acquisition from Zilog as if these transactions occurred at the beginning of the periods presented.

Pro forma results were as follows for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Revenue:	\$ 458,492	\$ 409,475	\$ 391,553
Net income:	\$ 31,351	\$ 21,832	\$ 16,079
Basic and diluted net income per share:			
Basic	\$ 2.28	\$ 1.44	\$ 1.04
Diluted	\$ 2.22	\$ 1.42	\$ 1.01

The unaudited pro forma financial information is not intended to represent or be indicative of the consolidated results of operations that would have been achieved had the acquisition actually been completed as of the dates presented, and should not be taken as a projection of the future consolidated results of our operations.

Enson Adjustments

Enson adjustments to reduce net income of \$2.9 million, \$5.5 million and \$5.9 million for the years ended December 31, 2010, 2009 and 2008, respectively, have been made to the combined results of operations. These adjustments reflect primarily interest on the term loan and line of credit, amortization of acquired intangible assets, amortization and depreciation of the fair value adjustments to prepaid land and property, plant, and equipment. All adjustments have been made net of their related tax effects.

Zilog Adjustments

Zilog related adjustments netting \$0.04 million for the year ended December 31, 2009 have been made to the combined results of operations, primarily reflecting net sales, salary costs and the amortization of purchased intangible assets that would have occurred had the acquisition date been January 1, 2009. Net adjustments of \$0.4 million have been subtracted from the combined results of operations for the year ended December 31, 2008, reflecting primarily net sales, salary costs, amortization of purchased intangible assets and the acquisition costs that would have occurred had the acquisition date been January 1, 2008. All adjustments have been made net of their related tax effects.

UNIVERSAL ELECTRONICS INC.
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Note 22 — Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for the years ended December 31, 2010 and 2009 are presented below:

	2010			
	March 31,	June 30,	September 30,	December 31,
(In thousands, except per share amounts)				
Net sales	\$ 71,376	\$ 78,892	\$ 79,007	\$ 102,505
Gross profit	22,064	27,425	25,718	28,642
Operating income	2,687	7,316	6,566	4,732
Net income	1,836	4,777	4,702	3,766
Earnings per share (1):				
Basic	\$ 0.13	\$ 0.35	\$ 0.35	\$ 0.26
Diluted	\$ 0.13	\$ 0.34	\$ 0.34	\$ 0.26
Shares used in computing earnings per share:				
Basic	13,700	13,601	13,417	14,344
Diluted	14,093	13,929	13,671	14,737
	2009			
	March 31,	June 30,	September 30,	December 31,
Net sales	\$ 71,126	\$ 78,303	\$ 83,182	\$ 84,939
Gross profit	21,437	25,495	26,070	28,610
Operating income	1,536	5,687	6,644	8,080
Net income	796	3,816	4,223	5,840
Earnings per share (1):				
Basic	\$ 0.06	\$ 0.28	\$ 0.31	\$ 0.43
Diluted	\$ 0.06	\$ 0.27	\$ 0.30	\$ 0.42
Shares used in computing earnings per share:				
Basic	13,658	13,621	13,687	13,700
Diluted	13,831	13,981	14,008	14,063

- (1) The earnings per common share calculations for each of the quarters were based upon the weighted average number of shares and share equivalents outstanding during each period, and the sum of the quarters may not be equal to the full year earnings per share amounts.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Exchange Act Rule 13a-15(d) 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 provide reasonable assurance 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 and is accumulated and communicated to our management to allow timely decisions regarding required disclosures.

Management’s Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive and principal financial officers, we evaluated the effectiveness of our internal control over financial reporting based on the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control Integrated Framework. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2010.

Our management has excluded Enson Assets Limited from its assessment of internal control over financial reporting as of December 31, 2010 because they were acquired during the fourth quarter of 2010. Enson Assets Limited is a subsidiary whose total assets and total net sales represent 51% and 8%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2010.

The effectiveness of our internal control over financial reporting as of December 31, 2010 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in its attestation report which is included herein.

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Changes in Internal Control Over Financial Reporting

There have been no changes in internal controls or in other factors that may significantly affect our internal controls during 2010.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Universal Electronics Inc.

We have audited Universal Electronics Inc.'s (a Delaware Corporation) internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Universal Electronics Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on Universal Electronics Inc.'s internal control over financial reporting based on our audit. Our audit of, and opinion on, Universal Electronics Inc.'s internal control over financial reporting does not include internal control over financial reporting of Enson Assets Limited, a wholly owned subsidiary, whose financial statements reflect total assets and revenues constituting 51 percent and 8 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2010. As indicated in Management's Report, Enson Assets Limited was acquired during 2010 and therefore, management's assertion on the effectiveness of Universal Electronics Inc.'s internal control over financial reporting excluded internal control over financial reporting of Enson Assets Limited.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Universal Electronics Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Universal Electronics Inc. as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010, and our report dated March 16, 2011 expressed an unqualified opinion.

/s/ Grant Thornton LLP
Irvine, California

March 16, 2011

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Information required by Item 401 of Regulation S-K with respect to our directors will be contained in and is hereby incorporated by reference to our definitive Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Exchange Act. Information regarding executive officers of the Company is set forth in Part I of this Form 10-K.

Information required by Item 405 of Regulation S-K will be contained in and is hereby incorporated by reference to our definitive Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed subsequent to the date of filing this Form 10-K, under the caption "Section 16(a) Beneficial Ownership Reporting Compliance." Copies of Section 16 reports, Forms 3, 4 and 5, are available on our website, www.uei.com under the caption "SEC Filings" on the Investor page.

Code of Conduct. We have adopted a code of conduct that applies to all of our employees, including without limitation our principal executive officer, principal financial officer and principal accounting officer. A copy of the Code of Conduct is included as Exhibit 14.1 to our Annual Report on Form 10-K for the year ended December 31, 2003 filed on March 14, 2004 (File No. 0-21044). The Code of Conduct is also available on our website, www.uei.com under the caption "Corporate Governance" on the Investor page. We will post on our website information regarding any amendment to, or waiver from, any provision of the Code of Conduct that applies to our principal executive officer, principal financial officer or principal accounting officer.

Information required by Items 407(c)(3), (d)(4) and (d)(5) of Regulation S-K will be contained in and is hereby incorporated by reference to our definitive Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Exchange Act.

ITEM 11. EXECUTIVE COMPENSATION

Information required by Items 402 and 407(e)(4) and (e)(5) of Regulation S-K will be contained in and is hereby incorporated by reference to our definitive Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Exchange Act.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by Item 403 of Regulation S-K will be contained in and is hereby incorporated by reference to our definitive Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Exchange Act.

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The following summarizes our equity compensation plans at December 31, 2010:

Equity Compensation Plan Information

Plan Category	(a)	(b)	(c)
	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,319,986	\$ 19.01	1,089,594
Equity compensation plans not approved by security holders	397,717	17.27	481
Total	1,717,703	\$ 18.61	1,090,075

See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA- Notes to Consolidated Financial Statements - Note 16" for a description of each of our stock incentive plans.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by Items 404 and 407(a) of Regulation S-K will be contained in and is hereby incorporated by reference to our definitive Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Exchange Act.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item will be contained in and is hereby incorporated by reference to our definitive Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Exchange Act.

PART IV**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES****(a)(1) List of Financial Statements**

See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-Index to Consolidated Financial Statements" for a list of the consolidated financial statements included herein.

(a)(2) List of Financial Statement Schedules

See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-Index to Consolidated Financial Statements" for a list of the consolidated financial statement schedules included herein.

(a)(3) List of Exhibits required to be filed by Item 601(a) of the Regulation S-K are included as Exhibits to this Report:

See EXHIBIT INDEX at page 95 of Form 10-K.

SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) 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, in the City of Cypress, State of California on the 16th day of March, 2011.

UNIVERSAL ELECTRONICS INC.

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

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Paul D. Arling and Bryan M. Hackworth as true and lawful attorneys-in-fact and agents, each acting alone, with full powers of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully for all intents and purposes as he might or may do in person, thereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the 16th day of March, 2011, by the following persons on behalf of the registrant and in the capacities indicated.

NAME & TITLE	SIGNATURE
Paul D. Arling <i>Chairman and Chief Executive Officer</i> (principal executive officer)	<u>/s/ Paul D. Arling</u>
Bryan M. Hackworth <i>Chief Financial Officer</i> (principal financial officer and principal accounting officer)	<u>/s/ Bryan M. Hackworth</u>
Satjiv S. Chahil <i>Director</i>	<u>/s/ Satjiv S. Chahil</u>
William C. Mulligan <i>Director</i>	<u>/s/ William C. Mulligan</u>
J. C. Sparkman <i>Director</i>	<u>/s/ J.C. Sparkman</u>
Gregory P. Stapleton <i>Director</i>	<u>/s/ Gregory P. Stapleton</u>
Carl E. Vogel <i>Director</i>	<u>/s/ Carl E. Vogel</u>
Edward K. Zinser <i>Director</i>	<u>/s/ Edward K. Zinser</u>

EXHIBIT INDEX

Exhibit Number	Document Description
2.1	Asset Purchase Agreement dated as of February 17, 2009 by and among Zilog, Inc., Zilog India Electronics Pvt Ltd, Maxim Integrated Products, Inc., UEI Cayman Inc., Universal Electronics Inc., and UEI Electronics Private Limited (incorporated by reference to Exhibit 2.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 filed on March 13, 2009 (File No. 0-12044))
2.2	Stock Purchase Agreement dated as of November 3, 2010, among Universal Electronics Inc., UEI Hong Kong Private Limited and CG International Holdings Limited** (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on November 4, 2010 (File No. 0-12044))
3.1	Restated Certificate of Incorporation of Universal Electronics Inc., as amended (Incorporated by reference to Exhibit 3.1 to the Company's Form S-1 Registration filed on or about December 24, 1992 (File No. 33-56358))
3.2	Amended and Restated By-laws of Universal Electronics Inc. (Incorporated by reference to Exhibit 3.2 to the Company's Form S-1 Registration filed on or about December 24, 1992 (File No. 33-56358))
3.3	Certificate of Amendment to Restated Certificate of Incorporation of Universal Electronics Inc. (Incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 filed on April 1, 1996 (File No. 0-21044))
4.1	Article Eighth of our Restated Certificate of Incorporation, as amended, contains certain provisions restricting business combinations with interested stockholders under certain circumstances and imposing higher voting requirements for the approval of certain transactions unless the transaction has been approved by two-thirds of the disinterested directors or fair price provisions have been met. (Incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 filed on April 1, 1996 (File No. 0-21044))
*10.1	Form of Universal Electronics Inc. 1993 Stock Incentive Plan (Incorporated by reference to Exhibit 10.13 to Amendment No. 1 to the Company's Form S-1 Registration filed on or about January 21, 1993 (File No. 33-56358))
*10.2	Form of Universal Electronics Inc. 1995 Stock Incentive Plan (Incorporated by reference to Exhibit B to the Company's Definitive Proxy Materials for the 1995 Annual Meeting of Stockholders of Universal Electronics Inc. filed on May 1, 1995 (File No. 0-21044))
*10.3	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain employees used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 1995 Stock Incentive Plan (Incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 filed on March 28, 1997 (File No. 0-21044))
*10.4	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain non-affiliated directors used in connection with options granted to the non-affiliated directors pursuant to the Universal Electronics Inc. 1995 Stock Incentive Plan (Incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 filed on March 28, 1997 (File No. 0-21044))
*10.5	Form of Universal Electronics Inc. 1996 Stock Incentive Plan (Incorporated by reference to Exhibit 4.5 to the Company's Form S-8 Registration Statement filed on March 26, 1997 (File No. 333-23985))
*10.6	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain employers used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 1996 Stock Incentive Plan (Incorporated by reference to Exhibit 4.6 to the Company's Form S-8 Registration Statement filed on March 26, 1997 (File No. 333-23985))

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Exhibit Number	Document Description
*10.7	Form of Salary Continuation Agreement by and between Universal Electronics Inc. and certain employees (Incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, filed on March 30, 1998 (File No. 0-21044))
*10.8	Form of Amendment to Salary Continuation Agreement by and between Universal Electronics Inc. and certain employees (Incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, filed on March 30, 1998 (File No. 0-21044))
*10.9	Form of Universal Electronics Inc. 1998 Stock Incentive Plan (Incorporated by reference to Exhibit A to the Company's Definitive Proxy Materials for the 1998 Annual Meeting of Stockholders of Universal Electronics Inc. filed on April 20, 1998 (File No. 0-21044))
*10.10	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain employees used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 1998 Stock Incentive Plan (Incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
*10.11	Form of Universal Electronics Inc. 1999 Stock Incentive Plan (Incorporated by reference to Exhibit A to the Company's Definitive Proxy Materials for the 1999 Annual Meeting of Stockholders of Universal Electronics Inc. filed on April 29, 1999 (File No. 0-21044))
*10.12	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain employees used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 1999 Stock Incentive Plan (Incorporated by reference to Exhibit A to the Company's Definitive Proxy Materials for the 1999 Annual Meeting of Stockholders of Universal Electronics Inc. filed on April 29, 1999 (File No. 0-21044))
*10.13	Form of Salary Continuation Agreement by and between Universal Electronics Inc. and certain employees (Incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 filed on March 30, 2000 (File No. 0-21044))
*10.14	Form of Universal Electronics Inc. 1999A Nonqualified Stock Plan effective October 7, 1999 and subsequently amended February 1, 2000 (Incorporated by reference to Exhibit 10.42 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 filed on March 30, 2000 (File No. 0-21044))
*10.15	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain employees used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 1999A Nonqualified Stock Plan (Incorporated by reference to Exhibit 10.43 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 filed on March 30, 2000 (File No. 0-21044))
*10.16	Form of Universal Electronics Inc. 2002 Stock Incentive Plan (Incorporated by reference to Exhibit 10.49 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed on August 14, 2002 (File No. 0-21044))
*10.17	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain directors, officers and other employees used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 2002 Stock Incentive Plan (Incorporated by reference to Exhibit 10.50 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed on August 14, 2002 (File No. 0-21044))
*10.18	Form of Universal Electronics Inc. 2003 Stock Incentive Plan (Incorporated by reference to Appendix B to the Company's Definitive Proxy Materials for the 2003 Annual Meeting of Stockholders of Universal Electronics Inc. filed on April 28, 2003 (File No. 0-21044))

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<u>Exhibit Number</u>	<u>Document Description</u>
*10.19	Form of Executive Officer Employment Agreement dated April 23, 2003 by and between Universal Electronics Inc. and Paul D. Arling (incorporated by reference to Exhibit 10.42 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 filed on March 14, 2004 (File No. 0-21044))
*10.20	Form of First Amendment to Executive Officer Employment Agreement dated October 21, 2005 by and between Universal Electronics Inc. and Paul D. Arling (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 filed on March 16, 2006 (File No. 0-21044))
*10.21	Form of Universal Electronics Inc. 2006 Stock Incentive Plan (incorporated by reference to Appendix C to the Company's Definitive Proxy Materials for the 2006 Annual Meeting of Stockholders of Universal Electronics Inc. filed on April 26, 2006 (File No. 0-21044))
10.22	Form of Lease dated January 31, 2007 between FirstCal Industrial 2 Acquisition, LLC and Universal Electronics Inc. (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 filed on March 16, 2007 (File No. 02-21044))
*10.23	Form of Indemnification Agreements, dated as of January 2, 2007 between the Company and each director and certain officers of the Company (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 filed on March 16, 2007 (File No. 02-21044))
*10.24	Form of Restricted Stock Unit Agreement (incorporated herein by reference to Exhibit 4.5 to the Company's Form S-8 Registration Statement filed on March 27, 2008 (File No. 333-149926))
10.25	Credit Agreement dated December 23, 2009 between U.S. Bank National Association and Universal Electronics Inc. (incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 filed on March 15, 2010 (File No. 02-21044))
10.26	Revolving Note dated December 23, 2009 from Universal Electronics Inc. to U.S. Bank National Association ((incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 filed on March 15, 2010 (File No. 02-21044))
10.27	Amended and Restated Credit Agreement dated as of November 1, 2010 between Universal Electronics Inc. and U.S. Bank National Association (filed herewith).
10.28	Revolving Note dated November 1, 2010 between Universal Electronics Inc. and U.S. Bank National Association (filed herewith)
10.29	Term Note dated November 1, 2010 from Universal Electronics Inc. to U.S. Bank National Association (filed herewith)
10.30	Pledge Agreement dated November 1, 2010 between UEI Hong Kong Private Limited and Enson Assets Limited to U.S. Bank National Association (filed herewith)
10.31	Security Agreement dated November 1, 2010 from Universal Electronics Inc. to U.S. Bank National Association (filed herewith)
14.1	Code of Conduct (incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 filed on March 14, 2004 (File No. 0-21044))
21.1	List of Subsidiaries of the Registrant (filed herewith)
23.1	Consent of Independent Registered Public Accounting Firm — Grant Thornton LLP (filed herewith)

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Exhibit Number	Document Description
24.1	Power of Attorney (filed as part of the signature page hereto)
31.1	Rule 13a-14(a) Certifications of the Chief Executive Officer (filed herewith)
31.2	Rule 13a-14(a) Certifications of the Chief Financial Officer (principal financial officer and principal accounting officer) (filed herewith)
32.1	Section 1350 Certifications of the Chief Executive Officer (filed herewith)
32.2	Section 1350 Certifications of the Chief Financial Officer (principal financial officer and principal accounting officer) (filed herewith)

* Management contract or compensation plan or arrangement identified pursuant to Items 15(a)(3) and 15(c) of Form 10-K.

** Attachments to the Purchase Agreement, identified on Exhibit 2.2, have been omitted as permitted by Item 601(b)(2) of Regulation S-K. UEI hereby undertakes to furnish supplementally to the Securities and Exchange Commission a copy of any omitted attachment upon request.

AMENDED AND RESTATED CREDIT AGREEMENT

by and between

UNIVERSAL ELECTRONICS INC.

and

U.S. BANK NATIONAL ASSOCIATION

Dated as of November 1, 2010

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AMENDED AND RESTATED CREDIT AGREEMENT

THIS AMENDED AND RESTATED CREDIT AGREEMENT (this "Agreement"), dated as of November 1, 2010, is by and between UNIVERSAL ELECTRONICS INC., a corporation organized under the laws of the State of Delaware (the "Borrower"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association (the "Bank").

RECITALS

A. The Borrower and the Bank are parties to a Credit Agreement dated as of December 23, 2009 (the "Existing Credit Agreement").

B. The Borrower has requested that the Bank agree to amend and restate the Existing Credit Agreement and extend to the Borrower a new term loan facility for the purpose of financing in part the Acquisition (Enson) (defined below), and the Bank has agreed to do so, subject to the conditions and limitations set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I. DEFINITIONS AND ACCOUNTING TERMS

Section 1.1. Defined Terms. As used in this Agreement, the following terms have the following meanings (and such meanings apply to both the singular and plural forms of the term defined, as the context requires):

"Acquisition": Any acquisition of the assets or Equity Interests of another Person in one or more transactions.

"Acquisition (Enson)": The acquisition by the Buyer of all of the capital stock in the Target pursuant to the Acquisition Documents (Enson).

"Acquisition Agreement (Enson)": The Stock Purchase Agreement dated as of November 1, 2010, by and among the Seller (Enson), the Buyer, and the Borrower.

"Acquisition Documents (Enson)": The Acquisition Agreement (Enson) and all other agreements, instruments, certificates, and other documents executed and delivered pursuant to or in connection therewith, as the same may be supplemented, amended, or otherwise modified from time to time to the extent not prohibited by the terms of this Agreement.

"Acquisition Target": The Person from which beneficial ownership of assets or Equity Interests of another Person is acquired in an Acquisition.

“Advance”: Any portion of the outstanding Revolving Loans or the Term Loan as to which one of the available interest rate options and, if pertinent, a Loan Period, is applicable. An Advance may be a LIBOR Rate Loan or a Prime Rate Loan.

“Affiliate”: When used with reference to any Person, (a) each Person that, directly or indirectly, controls, is controlled by, or is under common control with the Person referred to, (b) each Person that beneficially owns or holds, directly or indirectly, 5% or more of any class of voting Equity Interests of the Person referred to, (c) each Person, 5% or more of the voting Equity Interests (or if such Person is not a corporation, 5% or more of the equity interest) of which is beneficially owned or held, directly or indirectly, by the Person referred to, and (d) each of such Person’s officers, directors, joint venturers, and partners. The term “control” (including the terms “controlled by” and “under common control with”) means the possession, directly, of the power to direct or cause the direction of the management and policies of the Person in question.

“Applicable Margin”:

(a) For Revolving Loans:

(i) For LIBOR Rate Loans: 1.8%.

(ii) For Prime Rate Loans: 0%.

(b) For the Term Loan:

(i) For LIBOR Rate Loans: 1.5%.

(ii) For Prime Rate Loans: 0%.

“Bank”: As defined in the opening paragraph hereof.

“Banking Day”: Any day (other than a Saturday, Sunday, or federal or state legal holiday in the State of California) on which banks are permitted to be open in the State of California and New York City, New York.

“Board”: The Board of Governors of the Federal Reserve System or any successor thereto.

“Borrower”: As defined in the opening paragraph hereof.

“Buyer”: UEI Hong Kong Private Limited, a company organized under the Laws of Hong Kong.

“Capital Expenditures”: For any period, the sum of all amounts that would, in accordance with GAAP, be included as additions to property, plant, and equipment on a consolidated statement of cash flows for the Borrower during such period, in respect of (a) the acquisition, construction, improvement, replacement, or betterment of land, buildings, machinery, equipment, or any other fixed assets or leaseholds, (b) to the extent

related to and not included in (a) above, materials and contract labor (excluding expenditures properly chargeable to repairs or maintenance in accordance with GAAP), and (c) other capital expenditures and other uses recorded as capital expenditures or similar terms having substantially the same effect.

“Capitalized Lease”: A lease of (or other agreement conveying the right to use) real or personal property with respect to which at least a portion of the rent or other amounts thereon constitutes Capitalized Lease Obligations.

“Capitalized Lease Obligations”: As to any Person, the obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) real or personal property which obligations are required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP (including Statement of Financial Accounting Standards No. 13 of the Financial Accounting Standards Board). For purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP (including such Statement No. 13).

“Cash Flow Leverage Ratio”: At any time of determination, the ratio of (a) interest-bearing Indebtedness to (b) EBITDA.

“Change of Control”: The occurrence, after the Effective Date, of any of the following circumstances: (a) any Person or two or more Persons acting in concert acquiring beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934), directly or indirectly, of Equity Interests of the Borrower representing 30% or more of the combined voting power of all Equity Interests of the Borrower entitled to vote in the election of directors; (b) during any period of up to twelve consecutive months, whether commencing before or after the Effective Date, individuals who at the beginning of such twelve-month period were directors of the Borrower ceasing for any reason to constitute a majority of the board of directors of the Borrower (other than by reason of death, disability, or scheduled retirement); or (c) any Person or two or more Persons acting in concert acquiring by contract or otherwise, or entering into a contract or arrangement that upon consummation will result in its or their acquisition of, control over Equity Interests of the Borrower representing 30% or more of the combined voting power of all Equity Interests of the Borrower entitled to vote in the election of directors.

“Charges”: As defined in Section 8.17.

“Code”: The Internal Revenue Code of 1986, as amended.

“Commitments”: The Revolving Commitment and the Term Loan Commitment.

“Contingent Obligation”: With respect to any Person at the time of any determination, without duplication, any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other Person (the “primary obligor”) in any manner, whether directly or otherwise, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such

Indebtedness or to purchase (or advance or supply funds for the purchase of) any direct or indirect security therefor, (b) to purchase property, securities, Equity Interests, or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness, (c) to maintain working capital, equity capital, or other financial statement condition of the primary obligor so as to enable the primary obligor to pay such Indebtedness or otherwise to protect the owner thereof against loss in respect thereof, or (d) entered into for the purpose of assuring in any manner the owner of such Indebtedness of the payment of such Indebtedness or to protect the owner against loss in respect thereof; provided, that the term "Contingent Obligation" shall not include endorsements for collection or deposit, in each case in the ordinary course of business.

"Current Liabilities": As of any date, the consolidated current liabilities of the Borrower, determined in accordance with GAAP.

"Default": Any event that with the giving of notice (whether such notice is required under Section 7.1, under some other provision of this Agreement, or otherwise) or lapse of time, or both, would constitute an Event of Default.

"EBITDA": For any period of determination, the consolidated net income of the Borrower before deductions for income taxes, Interest Expense, depreciation, and amortization, all as determined in accordance with GAAP.

"EBITDAR": For any period of determination, the consolidated net income, plus interest expense, plus income tax expense, plus depreciation expense, plus amortization expense, plus rent or lease expense of the Borrower, all as determined for said period in accordance with GAAP.

"Effective Date": Any Banking Day on which all the conditions precedent to the Bank's obligation to make the Revolving Loans and the Term Loan, as set forth in Article III, have been, or, on such Effective Date, will be, satisfied.

"Equity Interests": All shares, interests, participations, or other equivalents, however designated, of or in a corporation or limited liability company, whether or not voting, including but not limited to common stock, member interests, warrants, preferred stock, convertible debentures, and all agreements, instruments, and documents convertible, in whole or in part, into any one or more of the foregoing.

"ERISA": The Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate": Any trade or business (whether or not incorporated) that is a member of a group of which the Borrower is a member and that is treated as a single employer under § 414 of the Code.

"Event of Default": Any event described in Section 7.1.

"Federal Funds Rate": For any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions, with members of the Federal Reserve System arranged by Federal

funds brokers, as published for such day (or, if such day is not a Banking Day, for the next preceding Banking Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Banking Day, the average of the quotations the Bank receives for such day on such transactions from three Federal funds brokers of recognized standing that the Bank selects.

“Fixed Charge Coverage Ratio”: For any period of determination, (a) EBITDAR minus cash taxes, cash dividends, cash distributions, and Maintenance Capital Expenditures divided by (b) the sum of all consolidated required principal payments (on short and long term debt and capital leases), interest, and rental or lease expense, all as determined for said period in accordance with GAAP.

“Foreign Currency Hedging Agreement”: Any foreign currency swap, exchange, cap, collar, floor, forward, future or option agreement, or any other similar hedging arrangement, between the Borrower or any Restricted Subsidiary, as the case may be, and any one or more counterparties, including the Bank, provided that such agreements are entered into by such Person in the ordinary course of its business and not for purposes of speculation.

“GAAP”: Generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants, statements and pronouncements of the Financial Accounting Standards Board, or such other statements by such other entity as are approved by a significant segment of the accounting profession that are applicable to the circumstances as of any date of determination.

“Holding Account”: A deposit account belonging to the Bank into which the Borrower may be required to make deposits pursuant to this Agreement, such account to be under the sole dominion and control of the Bank and not subject to withdrawal by the Borrower, with any amounts therein to be held for application as specified in Sections 2.6, 2.10, and 2.13 as the case may be.

“Immediately Available Funds”: Funds with good value on the day and in the city in which payment is received.

“Indebtedness”: With respect to any Person at the time of any determination, without duplication, all obligations, contingent or otherwise, of such Person that in accordance with GAAP should be classified upon the balance sheet of such Person as liabilities, but in any event including: (a) all obligations of such Person for borrowed money (including non-recourse obligations), (b) all obligations of such Person evidenced by bonds, debentures, notes, or other similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid or accrued, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person, (e) all obligations of such Person issued or assumed as the deferred purchase price of property or services, but excluding trade payables incurred in the ordinary course of business that are not more than 90 days past due, (f) all obligations of others secured by any Lien on property owned or acquired by such Person, whether or

not the obligations secured thereby have been assumed, (g) all Capitalized Lease Obligations of such Person, (h) all obligations of such Person in respect of interest rate swap agreements, cap or collar agreements, interest rate futures or option contracts, currency swap agreements, currency futures or option agreements, and other similar contracts, (i) all obligations of such Person, actual or contingent, as an account party in respect of letters of credit or bankers' acceptances, (j) all obligations of any partnership or joint venture as to which such Person is or may become personally liable, (k) all obligations of such Person under any Equity Interests issued by such Person, and (l) all Contingent Obligations of such Person.

“Indemnitee”: As defined in Section 8.12.

“Interest Differential”: As defined in Section 2.4(d).

“Interest Expense”: For any period of determination, the aggregate consolidated amount, without duplication, of interest paid, accrued, or scheduled to be paid in respect of any Indebtedness of the Borrower, including (a) all but the principal component of payments in respect of conditional sale contracts, Capitalized Leases, and other title retention agreements, (b) commissions, discounts, and other fees and charges with respect to letters of credit and bankers' acceptance financings, and (c) net costs under interest rate protection agreements, in each case determined in accordance with GAAP.

“Investment”: (a) The acquisition, purchase, making, or holding of any Equity Interests or other security, or any loan, advance, contribution to capital, or extension of credit (except for trade and customer accounts receivable for inventory sold or services rendered in the ordinary course of business and payable in accordance with customary trade terms), (b) any acquisition of real or personal property (other than real and personal property acquired in the ordinary course of business), and any purchase of or commitment or option to purchase Equity Interests, securities, or other debt of or any interest in another Person or any integral part of any business or the assets constituting such business or part thereof, and (c) the formation of, or entry into, any partnership as a limited or general partner with any other Person or the entry into any joint venture with any other Person. The amount of any Investment shall be the original cost of such Investment plus the cost of all additions thereto, without any adjustments for increases or decreases in value or write-ups, write-downs, or write-offs with respect to such Investment.

“Letter of Credit”: A letter of credit issued by the Bank pursuant to this Agreement for the account of the Borrower.

“Letter of Credit Fee”: As defined in Section 2.14.

“Letter of Credit Outstandings”: The aggregate maximum amount available to be drawn under Letters of Credit outstanding on any date of determination.

“LIBOR Rate Loan”: As defined in Section 2.4(a).

“Lien”: With respect to any Person, any security interest, mortgage, pledge, lien, charge, encumbrance, title retention agreement, or analogous instrument or device (including the interest of each lessor under any Capitalized Lease) in, of, or on any assets or properties of such Person, now owned or hereafter acquired, whether arising by agreement or operation of law.

“Loan”: A Revolving Loan or the Term Loan.

“Loan Documents”: This Agreement, the Pledge Agreement, the Security Agreement, the Revolving Note, and the Term Note.

“Loan Period”: As defined in Section 2.4(b).

“Maintenance Capital Expenditures”: For any period of determination, 50% of the consolidated equipment depreciation expense of the Borrower, determined in accordance with GAAP.

“Material Adverse Occurrence”: Any occurrence of whatsoever nature (including, without limitation, any adverse determination in any litigation, arbitration, or governmental investigation or proceeding) that could reasonably be expected to materially and adversely affect (a) the financial condition or operations of the Borrower and its Subsidiaries taken as a whole, (b) the ability of the Borrower or any Subsidiary to perform its obligations under any Transaction Document, or any writing executed pursuant thereto, (c) the validity or enforceability of the material obligations of the Borrower or any Subsidiary under any Transaction Document, (d) the rights and remedies of the Bank against the Borrower or any Subsidiary under any Loan Document, or (e) the timely payment of the principal of and interest on the Loans or other amounts payable by the Borrower hereunder.

“Maximum Rate”: As defined in Section 8.17.

“Multiemployer Plan”: A multiemployer plan, as such term is defined in § 4001(a)(3) of ERISA, that is maintained (on the Effective Date, within the five years preceding the Effective Date, or at any time after the Effective Date) for employees of the Borrower or any ERISA Affiliate.

“Note”: The Term Note or the Revolving Note.

“Obligations”: The Borrower’s obligations in respect of the due and punctual payment of principal and interest on the Revolving Note, the Term Note, and Unpaid Drawings when and as due, whether by acceleration or otherwise, all fees, expenses, indemnities, reimbursements, and other obligations of the Borrower under the Loan Documents, and the Rate Protection Obligations, in all cases whether now existing or hereafter arising or incurred.

“Other Taxes”: As defined in Section 2.20(b).

“Participants”: As defined in Section 8.6(b).

“PBGC”: The Pension Benefit Guaranty Corporation, established pursuant to Subtitle A of Title IV of ERISA, and any successor thereto or to the functions thereof.

“Permitted Acquisition”: (a) The Acquisition (Enson); (b) any other Acquisition to which the Bank has provided written consent, or (c) any Acquisition for which the following conditions are met:

(a) such Acquisition is not “hostile” and has been approved by the Acquisition Target by action of the board of directors or other similar governing body of the Acquisition Target;

(b) the Acquisition Target is in a line of business the same as or similar to the electronics industry or is complementary to the line of business engaged in by the Borrower as of the Effective Date; and

(c) the Borrower has delivered to the Bank a pro forma Compliance Certificate, certified by the chief financial officer of the Borrower, demonstrating that both before and after giving effect to such Acquisition, no Event of Default is continuing or will result therefrom.

“Person”: Any natural person, corporation, partnership, limited partnership, limited liability company, joint venture, firm, association, trust, unincorporated organization, government, governmental agency or political subdivision, or other entity, whether acting in an individual, fiduciary, or other capacity.

“Plan”: Each employee benefit plan (whether in existence on the Effective Date or thereafter instituted), as such term is defined in § 3 of ERISA, maintained for the benefit of employees, officers, or directors of the Borrower or of any ERISA Affiliate.

“Pledge Agreement”: The Pledge Agreement of even date herewith given by the Buyer in favor of the Bank, as the same may be amended, restated, or otherwise modified from time to time.

“Prime Rate”: As defined in Section 2.4(a).

“Prime Rate Loan”: As defined in Section 2.4(a).

“Prohibited Transaction”: As defined in § 4975 of the Code and § 406 of ERISA.

“Quick Ratio”: As of any date of determination, the ratio of (a) the Borrower’s consolidated accounts receivable plus the Borrower’s consolidated cash on hand and marketable securities to (b) Current Liabilities (including the Obligations).

“Rate Protection Agreement”: Any interest rate swap, cap, or option agreement, or other agreement pursuant to which the Borrower hedges interest rate risk with respect to a portion of the Obligations, entered into by the Borrower with a Rate Protection Provider.

“Rate Protection Obligations”: The liabilities, indebtedness, and obligations of the Borrower, if any, to Rate Protection Providers under Rate Protection Agreements.

“Rate Protection Provider”: The Bank, or any Affiliate of the Bank, that is the counterparty of the Borrower under any Rate Protection Agreement.

“Regulatory Change”: Any change after the Effective Date in federal, state, or foreign laws or regulations or the adoption or making after such date of any interpretations, directives, or requests applying to a class of banks including the Bank under any federal, state, or foreign laws or regulations (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

“Reportable Event”: A reportable event as defined in § 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC by regulation has waived the requirement of § 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event, provided that a failure to meet the minimum funding standard of § 412 of the Code and § 302 of ERISA shall be a Reportable Event regardless of the issuance of any waiver in accordance with § 412(d) of the Code.

“Restricted Payments”: With respect to the Borrower and its Subsidiaries, collectively, all dividends or other distributions of any nature (whether cash, Equity Interests other than common stock of the Borrower, assets, or otherwise), and all payments on any class of Equity Interests (including warrants, options, or rights therefor) issued by the Borrower, whether or not such Equity Interests are authorized or outstanding on the Effective Date or at any time thereafter, and any redemption or purchase of, or distribution in respect of, any of the foregoing, whether directly or indirectly.

“Restricted Subsidiary”: (a) Universal Electronics BV, (b) the Target, (c) the Buyer, (d) C.G. Development Limited (Hong Kong), a Hong Kong company, (e) Gemstar Technology (China) Co. Ltd., a People’s Republic of China company, (f) Gemstar Technology (Yasngzhou) Co. Ltd., a People’s Republic of China company, and (g) each other Subsidiary designated in writing by the Borrower pursuant to Section 5.14.

“Revolving Commitment”: The Bank’s obligation to make Revolving Loans to, and issue Letters of Credit for, the Borrower in an aggregate principal amount outstanding at any time not to exceed the Revolving Commitment Amount upon the terms and subject to the conditions and limitations of this Agreement.

“Revolving Commitment Amount”: \$20,000,000.

“Revolving Commitment Ending Date”: As defined in Section 2.17.

“Revolving Loan”: As defined in Section 2.1.

“Revolving Loan Date”: The date of the making of any Revolving Loan.

“Revolving Note”: A promissory note of the Borrower in the form of Exhibit A1, evidencing the Borrower’s obligation to repay the Revolving Loans, as the same may be amended, restated, or otherwise modified from time to time.

“Security Agreement”: The Security Agreement of even date herewith given by the Borrower in favor of the Bank.

“Seller (Enson)”: CG International Holdings Limited, an exempted company incorporated in the Cayman Islands under the Companies Law with limited liability.

“Standby Letter of Credit Sublimit”: \$4,500,000.

“Subordinated Debt”: Any Indebtedness of the Borrower, now existing or hereafter created, incurred, or arising, that is subordinated in right of payment to the payment of the Obligations in a manner and to an extent (a) that the Bank has approved in writing prior to the creation of such Indebtedness, or (b) as to any Indebtedness of the Borrower existing on the date of this Agreement, that the Bank has approved as Subordinated Debt in a writing delivered by the Bank to the Borrower on or prior to the Effective Date.

“Subsidiary”: Any corporation or other entity of which Equity Interests having ordinary voting power for the election of a majority of the board of directors or other Persons performing similar functions are owned by the Borrower either directly or through one or more Subsidiaries.

“Tangible Net Worth”: As of any date of determination, the sum of the amounts set forth on the consolidated balance sheet of the Borrower as the sum of the common stock, preferred stock, additional paid-in capital, and retained earnings of the Borrower (excluding treasury stock), less the book value of all intangible assets of the Borrower and its Subsidiaries, including all such items as goodwill, trademarks, trade names, service marks, copyrights, patents, licenses, unamortized debt discount and expenses, and the excess of the purchase price of the assets of any business acquired by the Borrower or any of its Subsidiaries over the book value of such assets.

“Target”: Enson Assets Limited, a company incorporated under the laws of the British Virgin Islands.

“Term Loan”: As defined in Section 2.1.

“Term Loan Commitment”: The agreement of the Bank to make the Term Loan to the Borrower in the amount specified in Section 2.1 upon the terms and subject to the conditions of this Agreement.

“Term Loan Maturity Date”: November 1, 2011.

“Term Note”: A promissory note of the Borrower in the form of Exhibit A2 hereto, evidencing the obligation of the Borrower to repay the Term Loan, as the same may be amended, restated, or otherwise modified from time to time.

“Termination Date”: The earlier of (a) the Revolving Commitment Ending Date or (b) the date on which the Revolving Commitment is terminated pursuant to Section 7.2.

“Total Revolving Outstandings”: As of any date of determination, the sum of (a) the aggregate unpaid principal balance of Revolving Loans outstanding on such date, (b) the Letter of Credit Outstandings, and (c) the aggregate amount of Unpaid Drawings on such date.

“Transaction Documents”: The Loan Documents and the Acquisition Documents (Enson).

“U.S. Taxes”: As defined in Section 2.19(e).

“Universal Electronics BV”: Universal Electronics, B.V., a corporation organized under the laws of the Netherlands.

“Unpaid Drawing”: As defined in Section 2.10.

Section 1.2. Accounting Terms and Calculations. Except as expressly provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with GAAP. To the extent any change in GAAP affects any computation or determination required to be made pursuant to this Agreement, such computation or determination shall be made as if such change in GAAP had not occurred unless the Borrower and the Bank agree in writing on an adjustment to such computation or determination to account for such change in GAAP.

Section 1.3. Computation of Time Periods. In this Agreement, in the computation of a period of time from a specified date to a later specified date, unless otherwise stated the word “from” means “from and including” and the words “to” and “until” mean “to but excluding.”

Section 1.4. Other Definitional Terms. The words “hereof,” “herein,” and “hereunder” and words of similar import when used in this Agreement refer to this Agreement as a whole and not to any particular provision hereof. References to sections, exhibits, and schedules and like references are to sections, exhibits, schedules, and the like of this Agreement unless otherwise provided. The words “include,” “includes,” and “including” shall be deemed to be followed by the phrase “without limitation.” Unless the context otherwise clearly requires, “or” has the inclusive meaning represented by the phrase “and/or.” All covenants, terms, definitions, or other provisions from other agreements incorporated by reference are incorporated into this Agreement as if fully set forth herein, and such incorporation shall include all necessary definitions and related provisions from such other agreements but only amendments thereto agreed to by the Bank, and shall survive any termination of such other agreements until the obligations of the Borrower under the Loan Documents are irrevocably paid in full, all Letters of Credit have expired without renewal or been returned to the Bank, and the Bank’s commitments to advance funds to the Borrower are terminated.

ARTICLE II.
TERMS OF THE CREDIT FACILITIES

Part A—Terms of Lending

Section 2.1. The Commitments. On the terms and subject to the conditions hereof, the Bank agrees to make the following lending facilities available to the Borrower:

(a) Revolving Loans. Revolving loans (the “Revolving Loans”) to the Borrower on a revolving basis at any time and from time to time from the Effective Date to the Termination Date, during which period the Borrower may borrow, repay, and reborrow in accordance with the provisions hereof, provided, that no Revolving Loan will be made in any amount that, after giving effect thereto, would cause the Total Revolving Outstandings to exceed the Revolving Commitment Amount.

(b) Term Loan. A term loan (the “Term Loan”) from the Bank to the Borrower on the Effective Date in the amount of \$35,000,000.

Section 2.2. Procedure for Revolving Loans. Any request by the Borrower for a Revolving Loan shall be in writing or by telephone and shall be received by the Bank not later than 9:00 A.M. (Pacific time) two Banking Days prior to the requested Revolving Loan Date if the Revolving Loan (or any portion thereof) is requested as a LIBOR Rate Loan and not later than 12:00 P.M. (Pacific time) on the requested Revolving Loan Date if the Revolving Loan is requested as a Prime Rate Loan. Each request for a Revolving Loan hereunder shall be irrevocable and shall be deemed a representation by the Borrower that on the requested Revolving Loan Date and after giving effect to the requested Revolving Loan the applicable conditions specified in Article III have been and will be satisfied. Each request for a Revolving Loan shall specify (i) the requested Revolving Loan Date, (ii) the amount of the Revolving Loan to be made on such date, (iii) whether such Revolving Loan is to be funded as a Prime Rate Loan or a LIBOR Rate Loan (and, if such Revolving Loan is to be made with more than one applicable interest rate choice, the amount to which each interest rate choice is applicable), and (iv) in the case of a LIBOR Rate Loan, the duration of the initial Loan Period applicable thereto. The Bank may rely on any telephone request by the Borrower for a Revolving Loan that it believes in good faith to be genuine, and the Borrower hereby waives the right to dispute the Bank’s record of the terms of such telephone request. Unless the Bank determines that any applicable condition specified in Article III has not been satisfied, the Bank will make available to the Borrower at the Bank’s principal office in Newport Beach, California in Immediately Available Funds not later than 3:00 P.M. (Pacific time) on the requested Revolving Loan Date the amount of the requested Revolving Loan.

Section 2.3. The Notes. The Revolving Loans shall be evidenced by a single Revolving Note payable to the order of the Bank in a principal amount equal to the Revolving Commitment Amount. The Term Loan shall be evidenced by a Term Note payable to the order of the Bank in the principal amount of the Term Loan. The Bank shall enter in its ledgers and records the amount of each Advance, any conversion or continuation thereof, and the payments made thereon; provided, however, that any failure by the Bank to make any such entry or any error in making such entry shall not limit or otherwise affect the obligation of the Borrower hereunder and on the Notes, and, in all events, the principal amounts owing by the Borrower in

respect of the Revolving Note shall be the aggregate amount of all Revolving Loans made by the Bank less all payments of principal thereof made by the Borrower and the principal amount owing by the Borrower in respect of the Term Note shall be the aggregate amount of the Term Loan less all payments of principal thereof made by the Borrower.

Section 2.4. Interest Rates; Conversions and Continuations; Etc.

(a) Interest Rate Options. Interest on each Advance shall accrue at one of the following per annum rates selected by the Borrower: (i) upon notice to the Bank, the Applicable Margin plus the prime rate announced by the Bank from time to time (the "Prime Rate"), as and when such rate changes (a "Prime Rate Loan"); or (ii) upon a minimum of two Banking Days' prior notice, the Applicable Margin plus the 1, 3, 6, or 12 month LIBOR rate quoted by the Bank from Reuters Screen LIBOR01 Page or any successor thereto (which shall be the LIBOR rate in effect two Banking Days prior to commencement of the advance), adjusted for any reserve requirement and any subsequent costs arising from a change in government regulation (a "LIBOR Rate Loan"), provided, however, that no Advance may be converted into or continued as a LIBOR Rate Loan if after giving effect to such conversion or continuation there would be more than 5 LIBOR Rate Loans outstanding.

(b) Conversions and Continuations. In the event the Borrower does not timely select another interest rate option at least two Banking Days before the end of the Loan Period for a LIBOR Rate Loan, the Bank may at any time after the end of the Loan Period convert such LIBOR Rate Loan to a Prime Rate Loan, but until such conversion, the funds advanced under the LIBOR Rate Loan shall continue to accrue interest at the same rate as the interest rate in effect for such LIBOR Rate Loan prior to the end of the Loan Period. The term "Loan Period" means the period commencing on the advance date of the applicable LIBOR Rate Loan and ending on the numerically corresponding day 1, 3, 6, or 12 months thereafter matching the interest rate term selected by the Borrower; provided, that (a) if any Loan Period would otherwise end on a day that is not a Banking Day, then the Loan Period shall end on the next succeeding Banking Day unless the next succeeding Banking Day falls in another calendar month, in which case the Loan Period shall end on the immediately preceding Banking Day; or (b) if any Loan Period begins on the last Banking Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of the Loan Period), then the Loan Period shall end on the last Banking Day of the calendar month at the end of such Loan Period.

(c) Limitations on LIBOR Rate Loans. No LIBOR Rate Loan may extend beyond the Termination Date (with respect Revolving Loans) or beyond the Term Loan Maturity Date (with respect to the Term Loan). In any event, if the Loan Period for a LIBOR Rate Loan extends beyond the Termination Date (with respect Revolving Loans) or beyond the Term Loan Maturity Date (with respect to the Term Loan), such LIBOR Rate Loan must be prepaid on the Termination Date (with respect Revolving Loans) or the Term Loan Maturity Date (with respect to the Term Loan). Notwithstanding anything to the contrary, the Bank's internal records of applicable interest rates shall be determinative absent manifest error. Notwithstanding anything to the contrary, each LIBOR Rate Loan shall be in a minimum principal amount of \$500,000.

(d) Prepayment of LIBOR Rate Loans. If a LIBOR Rate Loan is prepaid prior to the end of the applicable Loan Period, whether voluntarily or because prepayment is required due to the relevant Loan maturing, acceleration of the relevant Loan upon an Event of Default, or otherwise, the Borrower shall pay all of the Bank's costs, expenses, and Interest Differential (as determined by the Bank)

incurred as a result of such prepayment. The term "Interest Differential" means the greater of zero and the financial loss incurred by the Bank resulting from prepayment, calculated as the difference between the amount of interest the Bank would have earned (from like investments in the Money Markets as of the first day of the LIBOR Rate Loan) had prepayment not occurred and the interest the Bank will actually earn (from like investments in the Money Markets as of the date of prepayment) as a result of the redeployment of funds from the prepayment. Because of the short-term nature of the Loan facilities, the Borrower agrees that the Interest Differential shall not be discounted to its present value. Any prepayment of a LIBOR Rate Loan shall be in an amount equal to the remaining entire principal balance of such LIBOR Rate Loan. The term "Money Markets" refers to one or more wholesale funding markets available to and selected by the Bank, including negotiable certificates of deposit, commercial paper, Eurodollar deposits, bank notes, federal funds, interest rate and swaps, or others.

(e) Interest Upon Event of Default. Upon any Event of Default, each Loan shall, at the option of the Bank (or, in the case of an Event of Default under Sections 7.1(e), (f), or (g), automatically upon such Event of Default), bear interest until paid in full at the rate otherwise applicable thereto plus 5.0% per annum. Further, notwithstanding anything to the contrary in this Agreement, upon any Event of Default, at the Bank's option (or, in the case of an Event of Default under Sections 7.1(e), (f), or (g), automatically upon such Event of Default), no Advance may be made, converted, or continued as a LIBOR Rate Loan.

Section 2.5. Payment of Interest and Principal of Loans.

(a) Revolving Loans. Interest and principal on the Revolving Loans shall be paid as follows:

(i) Interest shall be payable (A) on the last day of each month, and (B) on the Termination Date; provided that interest under Section 2.4(e) shall be payable on demand.

(ii) Principal on the Revolving Loans is payable on the Termination Date.

(iii) The Bank is hereby authorized by the Borrower to charge on any day the depository accounts of the Borrower maintained with the Bank for any amount of accrued and unpaid interest or principal which is due and owing, unless such amount is being disputed in good faith in writing by the Borrower.

(b) Term Loan. Interest and principal upon the Term Loan shall be paid as follows:

(i) Interest shall be payable (A) on January 5, April 5, July 5, and October 5 of each year beginning on January 5, 2011, and (B) on the Term Loan Maturity Date; provided that interest under Section 2.4(e) shall be payable on demand.

(ii) Principal on the Term Loan is payable in installments of \$2,200,000 each, on January 5, April 5, July 5, and October 5 of each year beginning on January 5, 2011, plus a final payment equal to all unpaid principal on the Term Loan Maturity Date.

Section 2.6. Prepayments.

(a) Optional Prepayments. The Borrower may prepay Prime Rate Loans, in whole or in part, at any time, without premium or penalty. Each partial prepayment shall be in a minimum amount of \$500,000 or an integral multiple thereof. The Borrower may prepay LIBOR Rate Loans only if it pays any indemnities payable with respect thereto pursuant to Section 2.4(d).

(b) Mandatory Prepayments. If at any time the Borrower receives any payments in connection with the enforcement of its rights under the Acquisition Documents (Enson), the Borrower shall immediately pay to the Bank the net proceeds of such payments, together with any indemnities payable with respect to prepayment of LIBOR Rate Loans pursuant to Section 2.4(d). All such payments shall be applied to first to the scheduled principal payments on the Term Loan in the inverse order of their maturities and second to any outstanding Revolving Loans.

(c) Amounts paid (unless following an acceleration or upon termination of the Revolving Commitment in whole) or prepaid on Revolving Loans under this section may be reborrowed upon the terms and subject to the conditions and limitations of this Agreement. Amounts paid or prepaid on the Term Loan may not be reborrowed.

Part B—Terms of the Letter of Credit Facility

Section 2.7. Letters of Credit. Upon the terms and subject to the conditions of this Agreement, the Bank agrees to issue commercial and standby Letters of Credit for the account of the Borrower from time to time between the Effective Date and the Termination Date in such amounts as the Borrower requests up to an aggregate amount at any time outstanding not exceeding the Revolving Commitment Amount; provided that no Letter of Credit will be issued in any amount that, after giving effect to such issuance, would cause (a) the Total Revolving Outstandings to exceed the Revolving Commitment Amount or (b) the Letter of Credit Outstandings with respect to standby Letters of Credit to exceed the Standby Letter of Credit Sublimit.

Section 2.8. Procedures for Letters of Credit. The Borrower shall make each request for a Letter of Credit in writing by facsimile transmission, or electronic conveyance received by the Bank by 12:00 P.M. (Pacific time) on a Banking Day that is not less than three Banking Days before the requested date of issuance (which shall also be a Banking Day). Each request for a Letter of Credit shall be deemed a representation by the Borrower that on the date of issuance of such Letter of Credit and after giving effect thereto the applicable conditions specified in Article III have been and will be satisfied. The Bank may require that such request be made on such letter of credit application and reimbursement agreement form as the Bank from time to time specifies, along with satisfactory evidence of the authority and incumbency of the officials of the Borrower making such request.

Section 2.9. Terms of Letters of Credit. Letters of Credit shall be issued in support of obligations of the Borrower or any Subsidiary, contingent or otherwise, and to finance the working capital and business needs of the Borrower or any Subsidiary. All Letters of Credit must expire not later than the Banking Day preceding the Revolving Commitment Ending Date. No standby Letter of Credit may have a term longer than 12 months.

Section 2.10. Agreement to Repay Letter of Credit Drawings. If the Bank has received documents purporting to draw under a Letter of Credit that the Bank believes conform to the requirements of such Letter of Credit, or if the Bank has decided that it will comply with the Borrower's written or oral request or authorization to pay a drawing on any Letter of Credit that the Bank does not believe conforms to the requirements of the Letter of Credit, it will notify the Borrower of that fact. The Borrower shall reimburse the Bank by 10:00 A.M. (Pacific time) on the day on which such drawing is to be paid in Immediately Available Funds in an amount equal to the amount of such drawing. Any amount by which the Borrower has failed to reimburse the Bank for the full amount of such drawing by 10:00 A.M. (Pacific time) on the date on which the Bank in its notice indicated that it would pay such drawing, until reimbursed by the Borrower from the proceeds of Revolving Loans pursuant to Section 2.13 or out of funds available in the Holding Account, is an "Unpaid Drawing." Unpaid Drawings shall bear interest at a rate equal to the sum of (a) the Applicable Margin for Prime Rate Loans plus (b) the Prime Rate plus (c) 5.0% per annum. Such interest shall be payable on demand.

Section 2.11. Obligations Absolute. The Borrower's obligation under Section 2.10 to repay the Bank for any amount drawn on any Letter of Credit and for any Revolving Loans made under Section 2.13 to cover Unpaid Drawings shall be absolute, unconditional, and irrevocable, shall continue so long as any Letter of Credit is outstanding notwithstanding any termination of this Agreement, and shall be paid strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including without limitation the following circumstances:

(a) Any lack of validity or enforceability of any Letter of Credit;

(b) The existence of any claim, setoff, defense, or other right that the Borrower has or claims at any time against any beneficiary, transferee, or holder of any Letter of Credit (or any Person for whom any such beneficiary, transferee, or holder is acting), the Bank, or any other Person, whether in connection with a Letter of Credit, this Agreement, the transactions contemplated hereby, or any unrelated transaction; or

(c) Any statement or any other document presented under any Letter of Credit proving to be forged, fraudulent, invalid, or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever.

Neither the Bank nor its officers, directors, or employees shall be liable or responsible for, and the obligations of the Borrower to the Bank shall not be impaired by:

(a) The use made of any Letter of Credit or any acts or omissions of any beneficiary, transferee, or holder thereof in connection therewith;

(b) The validity, sufficiency, or genuineness of documents, or of any endorsements thereon, even if such documents or endorsements in fact prove to be in any or all respects invalid, insufficient, fraudulent, or forged;

(c) The Bank's acceptance of documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary; or

(d) Any other action of the Bank in making or failing to make payment under any Letter of Credit if in good faith and in conformity with U.S. or foreign laws, regulations, or customs applicable thereto.

Notwithstanding the foregoing, the Borrower shall have a claim against the Bank, and the Bank shall be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential, damages suffered by the Borrower that the Borrower proves were caused by the Bank's willful misconduct or gross negligence in determining whether documents presented under any Letter of Credit comply with the terms thereof.

Section 2.12. Outstanding Letters of Credit Following Event of Default. Upon a Default or Event of Default, the Borrower shall either (a) replace all outstanding Letters of Credit with letters of credit issued by another issuer acceptable to the respective beneficiaries of such Letters of Credit (whereupon such Letters of Credit shall be canceled), or (b) provide the Bank, as security for all outstanding Letters of Credit, with a cash collateral deposit in an amount that equals at least 110% of the Letter of Credit Outstandings at all times during the continuance of such Default or Event of Default. The Borrower hereby grants to the Bank a security interest in such cash collateral to secure all Obligations. The Bank will apply such cash collateral to the payment of drafts drawn under such Letters of Credit and customary costs and expenses charged or incurred by the Bank in connection therewith, and apply the unused portion thereof after all such Letters of Credit have expired or been fully drawn upon, if any, to repay other Obligations. After all such Letters of Credit have expired or been fully drawn upon, all Obligations have been paid in full in cash, and the Bank's obligations hereunder have terminated, the balance, if any, of such cash collateral shall be returned to the Borrower. The Borrower shall execute and deliver to the Bank such further documents and instruments as the Bank requests to evidence the creation and perfection of the security interest in such cash collateral account.

Part C—General

Section 2.13. Revolving Loans to Cover Unpaid Drawings. Whenever any Unpaid Drawing exists and there are not then funds in the Holding Account to cover the same, the Bank is authorized (and the Borrower does here so authorize the Bank) to, and shall, make a Revolving Loan (as a Prime Rate Loan) to the Borrower in an amount equal to the amount of the Unpaid Drawing. The Bank shall apply the proceeds of such Revolving Loan directly to reimburse itself for such Unpaid Drawing. If at the time the Bank makes a Revolving Loan pursuant to this section, the applicable conditions precedent specified in Article III have not been satisfied, the Borrower shall pay to the Bank interest on the funds so advanced at a floating rate per annum equal to the sum of (a) the Applicable Margin for Prime Rate Loans plus (b) the Prime Rate plus (c) 5.0% per annum.

Section 2.14. Facility Fees and Letter of Credit Fees. Upon the Effective Date, the Borrower shall pay to the Bank a one-time facility fee in connection with the Term Loan in the amount of \$25,000. For each Letter of Credit issued, the Borrower shall pay to the Bank a fee (a "Letter of Credit Fee") equal to (a) in the case of each standby Letter of Credit, at all times such Letter of Credit is outstanding, an amount determined by multiplying 1.8% by the original face amount of each such Letter of Credit determined on a per annum basis, payable on the date such Letter of Credit is issued, and (b) in the case of commercial Letters of Credit, the Bank's

standard fees as set forth on the Bank's Commercial Letter of Credit Fee Schedule, as updated from time to time. In addition to the Letter of Credit Fees, the Borrower shall pay to the Bank, on demand, all issuance, amendment, drawing, and other fees regularly charged by the Bank to its letter of credit customers and all reasonable out-of-pocket expenses the Bank incurs in connection with the issuance, amendment, administration, or payment of any Letter of Credit.

Section 2.15. Computation. Letter of Credit Fees and interest on Obligations shall be computed on the basis of actual days elapsed (or, in the case of Letter of Credit Fees that are paid in advance, actual days to elapse) and a year of 360 days.

Section 2.16. Payments. Payments and prepayments of principal of, and interest on, the Notes and all fees, expenses, and other obligations under this Agreement payable to the Bank shall be made without setoff or counterclaim in Immediately Available Funds not later than 1:00 P.M. (Pacific time) on the dates called for under the Loan Documents to the Bank at its main office in Newport Beach, California. Funds received after such time shall be deemed to have been received on the next Banking Day. Whenever any payment to be made under the Loan Documents is stated to be due on a day that is not a Banking Day, such payment shall be made on the next succeeding Banking Day, and such extension of time, in the case of a payment of principal, shall be included in the computation of any interest on such principal payment; provided, however, that if such extension would cause payment of interest on or principal of a LIBOR Rate Loan to be made in the next following calendar month, such payment shall be made on the next preceding Banking Day.

Section 2.17. Revolving Commitment Ending Date. The "Revolving Commitment Ending Date" is November 1, 2012.

Section 2.18. Use of Proceeds.

(a) The Revolving Loans shall be used to (a) provide financing for the Borrower's general corporate purposes, (b) support the issuance of commercial and standby Letters of Credit, and (c) provide temporary bridge financing for certain Permitted Acquisitions, in each case in a manner not in conflict with any of the Borrower's covenants in this Agreement.

(b) The Term Loan shall be used to finance the Acquisition (Enson) and to pay related transaction costs, fees, and expenses.

Section 2.19. Taxes.

(a) Any and all payments by the Borrower under the Loan Documents shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges, or withholdings, and all liabilities with respect thereto, excluding, in the case of the Bank, taxes imposed on its overall net income and franchise taxes imposed on it in lieu of net income taxes (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings, and liabilities in respect of payments under the Loan Documents being hereinafter referred to as "Taxes").

(b) The Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges, or similar levies that arise from any payment made under the

Loan Documents or from the execution, delivery, or registration of, performing under, or otherwise with respect to the Loan Documents (hereinafter referred to as “Other Taxes”).

(c) The Borrower shall indemnify the Bank for the full amount of Taxes or Other Taxes imposed on or paid by the Bank and any penalties, interest, and expenses with respect thereto. Payments on this indemnification shall be made within 30 days from the date the Bank makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes, the Borrower shall furnish to the Bank, at its address referred to on the signature page hereof, a certified copy of a receipt evidencing payment thereof. In the case of any payment under the Loan Documents by or on behalf of the Borrower through an account or branch outside the United States or by or on behalf of the Borrower by a payor that is not a United States person, if the Borrower determines that no Taxes are payable in respect thereof, the Borrower shall furnish or shall cause such payor to furnish to the Bank at such address an opinion of counsel reasonably acceptable to the Bank stating that such payment is exempt from Taxes. For purposes of this subsection (d), the terms “United States” and “United States person” have the meanings specified in § 7701 of the Code.

(e) If the Borrower is required by law or regulation to make any deduction, withholding, or backup withholding of any taxes, levies, imposts, duties, fees, liabilities, or similar charges of the United States of America, any possession or territory of the United States of America (including the Commonwealth of Puerto Rico), or any area subject to the jurisdiction of the United States of America (“U.S. Taxes”) from any payments to the Bank pursuant to any Loan Document in respect of the Obligations payable to the Bank then or thereafter outstanding, the Borrower shall make such withholdings or deductions and pay the full amount withheld or deducted to the relevant taxation authority or other authority in accordance with applicable law.

Section 2.20. Effect of Existing Credit Agreement. This Agreement amends and replaces in its entirety the Existing Credit Agreement, provided that the obligations of the Borrower incurred under the Existing Credit Agreement shall continue under this Agreement and shall not in any circumstance be terminated, extinguished, or discharged hereby but shall hereafter be governed by the terms of this Agreement. None of the liens created by the Existing Credit Agreement shall be terminated, extinguished, or discharged hereby.

ARTICLE III. CONDITIONS PRECEDENT

Section 3.1. Conditions of Initial Transaction. The making of the Term Loan and the initial Revolving Loan and the issuance of the initial Letter of Credit shall be subject to the prior or simultaneous fulfillment of the following conditions:

(a) Documents. The Bank shall have received the following:

- (i) The Revolving Note and the Term Note, each executed by a duly authorized officer (or officers) of the Borrower and dated the Effective Date.
- (ii) The Pledge Agreement, duly executed by a duly authorized officer (or officers) of the Buyer and dated the Effective Date.

(iii) The Security Agreement, duly executed by a duly authorized officer (or officers) of the Borrower and dated the Effective Date.

(iv) A statement of sources and uses of funds, duly executed by the Borrower and in form and substance satisfactory to the Bank.

(v) A certificate of

- (A) a Secretary or Assistant Secretary of the Borrower dated of as the Effective Date and certifying as to the following:
 - (a) A copy of the Borrower's corporate resolutions authorizing the execution, delivery, and performance of the Transaction Documents to which it is a party;
 - (b) The incumbency, names, titles, and signatures of the Borrower's officers authorized to execute the Loan Documents and to request Letters of Credit, Revolving Loans, the Term Loan, and conversions and continuations of Advances hereunder;
 - (c) A true and accurate copy of the Borrower's Restated Certificate of Incorporation and all amendments thereto; and
 - (d) A true and accurate copy of the Borrower's Amended and Restated Bylaws; and
- (B) a Secretary, Assistant Secretary, or equivalent officer of the Buyer dated of as the Effective Date and certifying as to the following:
 - (a) A copy of the Buyer's resolutions authorizing the execution, delivery, and performance of the Transaction Documents to which it is a party;
 - (b) The incumbency, names, titles, and signatures of the Buyer's officers authorized to execute the Pledge Agreement; and
 - (c) A true and accurate copy of the Buyer's organizational documents and all amendments thereto.
- (C) a Secretary, Assistant Secretary, or equivalent officer of the Target dated of as the Effective Date and certifying as to the following:
 - (a) A copy of the Buyer's resolutions authorizing the execution, delivery, and performance of the

Transaction Documents to which it is a party and the transfer of its shares to the Bank;

- (b) The incumbency, names, titles, and signatures of the Target's officers authorized to execute the Pledge Agreement; and
- (c) A true and accurate copy of the Target's organizational documents and all amendments thereto.
- (d) Resolutions of the shareholders of the Target approving an amendment to the Target's memorandum and articles of association, in form and substance satisfactory to the Bank.

(vi) A copy of the Borrower's Restated Certificate of Incorporation with all amendments thereto, certified by the appropriate governmental official of the State of Delaware as of a date not more than 30 days prior to the Effective Date.

(vii) A certificate of the Target's registered agent in the British Virgin Islands stating that the Target's shares are not encumbered and otherwise in form and substance satisfactory to the Bank.

(viii) Certificates of good standing for the Borrower in the States of Delaware and California certified by the appropriate governmental officials as of a date not more than 30 days prior to the Effective Date.

(ix) A certificate dated as of the Effective Date of an officer of the Borrower certifying that:

- (A) True and accurate copies of the Acquisition Documents (Enson) have been attached thereto, and remain in full force and effect, without modification or amendment;
- (B) All conditions to the closing of the Acquisition (Enson) (other than payment of the consideration) are satisfied or waived and, upon the funding of the Term Loans, the Acquisition (Enson) shall be consummated; and
- (C) Upon the closing of the Acquisition (Enson), the Buyer shall own all of the issued and outstanding shares of common stock of the Target.

(x) Evidence that the Seller (Enson) has received the full amount of the purchase price under the Acquisition Agreement (Enson) in excess of the amount of the Term Loan.

(xi) A certificate dated the Effective Date of the chief executive officer or chief financial officer of the Borrower certifying as to the matters set forth in Sections 3.2(a) and (b) below.

(xii) Copies of (1) audited financial statements of the Target for the fiscal years ended March 31, 2008, March 31, 2009, and March 31, 2010, prepared in accordance with Hong Kong financial reporting standards, (2) unaudited financial statements of the Target for the five months ending August 31, 2010, prepared in accordance with Hong Kong financial reporting standards, (3) projections and unaudited consolidated financial statements of the Borrower giving pro forma effect to the Acquisition (Enson) demonstrating, to the Bank's reasonable satisfaction, the solvency of the Borrower and each of its Subsidiaries and compliance with this Agreement, and (4) tax and accounting reports with respect to the Borrower after giving effect to the Acquisition (Enson) prepared by an accounting firm reasonably acceptable to the Bank, .

(xiii) ACORD 24 and 25 certificates of insurance with respect to each of the businesses and real properties of the Borrower and its Restricted Subsidiaries in such amounts and with such carriers as are reasonably acceptable to the Bank

(xiv) Original stock certificates evidencing 65% of the Equity Interests in the Target.

(b) Opinions.

(i) The Borrower shall have requested Richard A. Firehammer, Jr., its Senior Vice President, General Counsel and Secretary, to prepare a written opinion, addressed to the Bank and dated the Effective Date, covering the matters set forth in Exhibit B, and such opinion shall have been delivered to the Bank.

(ii) The Borrower shall have requested Jones Day, its Hong Kong local counsel, to prepare a written opinion, addressed to the Bank and dated the Effective Date, in form and substance satisfactory to the Bank, and such opinion shall have been delivered to the Bank.

(c) Compliance. The Borrower shall have performed and complied with all agreements, terms, and conditions in this Agreement required to be performed or complied with by the Borrower prior to or simultaneously with the Effective Date.

(d) Pledge Agreement. The Pledge Agreement (or financing statements with respect thereto) shall have been appropriately filed or recorded to the satisfaction of the Bank; any pledged collateral shall have been duly delivered to the Bank; any title insurance required by the Bank (with endorsements required by the Bank) shall have been obtained and be satisfactory to the Bank; and the priority and perfection of the Liens created by the Pledge Agreement shall have been established to the satisfaction of the Bank and its counsel.

(e) Form M1. A Form M1 shall have been prepared and filed in Hong Kong.

(f) Other Matters. All corporate and legal proceedings relating to the Borrower and all instruments and agreements in connection with the transactions contemplated by this Agreement shall be satisfactory in scope, form, and substance to the Bank and its counsel, and the Bank shall have received all information and copies of all documents, including records of corporate proceedings, as the Bank or its counsel reasonably has requested in connection therewith, such documents where appropriate to be certified by proper corporate or governmental authorities.

(g) Fees and Expenses. The Bank shall have received all other fees and other amounts due and payable by the Borrower on or prior to the Effective Date, including the facility fee described in Section 2.14 and the reasonable fees and expenses of counsel to the Bank payable pursuant to Section 8.2.

Any one or more of the conditions set forth above that the Borrower has not satisfied on or before the date of disbursement of the Term Loan and the initial Revolving Loan under this Agreement shall not be deemed permanently waived by the Bank unless the Bank waives the same in a writing that expressly states that the waiver is permanent, and in all cases in which the waiver is not stated to be permanent the Bank may at any later time insist upon compliance and satisfaction of any such condition as a condition to any subsequent Revolving Loan or Letter of Credit hereunder, and the Borrower's failure to comply with any such condition within 5 Banking Days' written notice from the Bank to the Borrower shall constitute an Event of Default under this Agreement.

Section 3.2. Conditions Precedent to the Term Loan and all Revolving Loans and Letters of Credit. The Bank's obligation to make the Term Loan or any Revolving Loan (including the initial Revolving Loan) or to issue any Letters of Credit (including the initial Letter of Credit) shall be subject to fulfillment of the following conditions:

(a) Representations and Warranties. The representations and warranties in Article IV shall be true and correct on and as of the Effective Date and on the date of each Revolving Loan and the date of issuance of each Letter of Credit with the same force and effect as if made on such dates.

(b) No Default. No Default or Event of Default shall have occurred on the Effective Date and on the date of each Revolving Loan and the date of issuance of each Letter of Credit or will exist after giving effect to each Revolving Loan made or Letter of Credit issued on such dates.

(c) Notices and Requests. The Bank shall have received the Borrower's request for such Revolving Loan as required under Section 2.2 or its application for such Letter of Credit specified under Section 2.8.

ARTICLE IV. REPRESENTATIONS AND WARRANTIES

To induce the Bank to enter into this Agreement, to make the Loans, and to issue Letters of Credit, the Borrower represents and warrants to the Bank:

Section 4.1. Organization, Standing, Etc. The Borrower is a corporation duly incorporated, validly existing, and in good standing under the laws of the State of Delaware and has all requisite power and authority to carry on its business as now conducted, to enter into this

Agreement, to issue the Notes, and to perform its obligations under the Transaction Documents. Each Restricted Subsidiary is duly organized, validly existing, and in good standing under the laws of the jurisdiction of its organization and has all requisite power and authority to carry on its business as now conducted. Each of the Borrower and the Restricted Subsidiaries (a) holds all certificates of authority, licenses, and permits necessary to carry on its business as presently conducted in each jurisdiction in which it is carrying on such business, except where the failure to hold such certificates, licenses, or permits could not constitute a Material Adverse Occurrence and (b) is duly qualified and in good standing as a foreign corporation (or other organization) in each jurisdiction in which the character of the properties it owns, leases, or operates or the business it conducts makes such qualification necessary and the failure so to qualify could permanently preclude the Borrower or such Restricted Subsidiary from enforcing its rights with respect to any assets or expose the Borrower to any Material Adverse Occurrence.

Section 4.2. Authorization and Validity. The execution, delivery, and performance by the Borrower of the Transaction Documents have been duly authorized by all necessary corporate action by the Borrower. This Agreement constitutes, and the Notes when executed will constitute, the legal, valid, and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, subject to limitations as to enforceability that might result from bankruptcy, insolvency, moratorium, and other similar laws affecting creditors' rights generally and subject to limitations on the availability of equitable remedies.

Section 4.3. No Conflict; No Default. The Borrower's execution, delivery, and performance of the Transaction Documents will not (a) violate any provision of any law, statute, rule, or regulation or any order, writ, judgment, injunction, decree, determination, or award of any court, governmental agency, or arbitrator presently in effect applying to the Borrower, (b) violate or contravene any provision of the Borrower's Restated Certificate of Incorporation or Amended and Restated Bylaws, or (c) result in a breach of or constitute a default under any indenture, loan or credit agreement, or other agreement, lease, or instrument to which the Borrower is a party or by which it or any of its properties may be bound or result in the creation of any Lien thereunder. Neither the Borrower nor any Restricted Subsidiary is in default under or in violation of any such law, statute, rule, regulation, order, writ, judgment, injunction, decree, determination, or award or any such indenture, loan or credit agreement, or other agreement, lease, or instrument in any case in which the consequences of such default or violation could constitute a Material Adverse Occurrence.

Section 4.4. Government Consent. No order, consent, approval, license, authorization, or validation of, filing, recording, or registration with, or exemption by any governmental or public body or authority is required on the Borrower's part to authorize, or is required in connection with, the execution, delivery, and performance of, or the legality, validity, binding effect, or enforceability of, the Transaction Documents.

Section 4.5. Financial Statements and Condition.

(a) The audited consolidated financial statements of the Target as at its fiscal years ended March 31, 2008, March 31, 2009, and March 31, 2010, and the unaudited financial statements of the Target for the five months ending August 31, 2010, copies of each of which have been delivered to the Bank, were prepared in accordance with Hong Kong financial reporting standards on a consistent basis

(except for, as to the interim statements, the absence of footnotes and normal year-end audit adjustments) and fairly present the consolidated financial condition of the Target as at such dates and the results of its operations and changes in financial position for the respective periods then ended. As of the dates of such financial statements, the Target did not have any material obligation, contingent liability, liability for taxes, or long-term lease obligation that is not reflected in such financial statements or in the notes thereto. Since March 31, 2010, there has been no Material Adverse Occurrence with respect to the Target. On and after the Effective Date, there has been no Material Adverse Occurrence with respect to the Borrower.

(b) The consolidated financial projections (including an operating budget and a cash flow budget) of the Borrower delivered pursuant to Section 3.1(a)(xi) were prepared by the Borrower in good faith utilizing assumptions believed by the Borrower to be reasonable at the time. The accompanying unaudited consolidated pro forma balance sheet of the Borrower as at the Effective Date, adjusted to give effect to the consummation of the Acquisition (Enson), the transactions contemplated by the Transaction Documents, and the financings contemplated hereby as if such transactions had occurred on such date (excluding the impact of the revaluation of the balance sheet in accordance with FASB 141 "Business Combinations"), is consistent in all material respects with such projections.

Section 4.6. Litigation. Other than as set forth in the Borrower's financial statements delivered pursuant to Section 4.5, there are no actions, suits, or proceedings pending or, to the Borrower's knowledge, threatened against or affecting the Borrower, any Subsidiary, or any of their properties before any court or arbitrator or any governmental department, board, agency, or other instrumentality that, if determined adversely to the Borrower or any Subsidiary, could constitute a Material Adverse Occurrence, and there are no unsatisfied judgments against the Borrower or any Subsidiary the satisfaction or payment of which could constitute a Material Adverse Occurrence.

Section 4.7. Environmental, Health and Safety Laws. There exists no violation by the Borrower or any Restricted Subsidiary of any applicable federal, state, or local law, rule or regulation, or order of any government, governmental department, board, agency, or other instrumentality relating to environmental, pollution, health, or safety matters that has imposed, will impose, or threatens to impose a material liability on the Borrower or a Restricted Subsidiary or that has required or would require a material expenditure by the Borrower or a Restricted Subsidiary to cure. Neither the Borrower nor any Restricted Subsidiary has received any notice to the effect that any part of its operations or properties is not in material compliance with any such law, rule, regulation, or order or notice that it or its property is the subject of any governmental investigation evaluating whether any remedial action is needed to respond to any release of any toxic or hazardous waste or substance into the environment, which non-compliance or remedial action could constitute a Material Adverse Occurrence. Except as set out on Schedule 4.7, the Borrower has no knowledge that it, its property, any Restricted Subsidiary, or any Restricted Subsidiary's property will become subject to environmental laws or regulations during the term of this Agreement, compliance with which could require Capital Expenditures that could constitute a Material Adverse Occurrence.

Section 4.8. ERISA. Each Plan is in substantial compliance with all applicable requirements of ERISA and the Code and with all material applicable rulings and regulations issued under the provisions of ERISA and the Code setting forth those requirements. No

Reportable Event has occurred and is continuing with respect to any Plan. All of the minimum funding standards applicable to such Plans have been satisfied and there exists no event or condition that would reasonably be expected to result in the institution of proceedings to terminate any Plan under § 4042 of ERISA. With respect to each Plan subject to Title IV of ERISA, as of the most recent valuation date for such Plan, the present value (determined on the basis of reasonable assumptions employed by the independent actuary for such Plan and previously furnished in writing to the Bank) of such Plan's projected benefit obligations did not exceed the fair market value of such Plan's assets.

Section 4.9. Federal Reserve Regulations. Neither the Borrower nor any Subsidiary is engaged principally or as one of its important activities in the business of extending credit for the purpose of purchasing or carrying margin stock (as defined in Regulation U of the Board). The value of all margin stock owned by the Borrower does not constitute more than 25% of the value of the assets of the Borrower.

Section 4.10. Title to Property; Leases; Liens; Subordination. Each of the Borrower and its Restricted Subsidiaries has (a) good and marketable title to its real properties and (b) good and sufficient title to, or valid, subsisting, and enforceable leasehold interest in, its other material properties, including all real properties and other properties and assets referred to as owned by the Borrower or any of its Restricted Subsidiaries in the most recent financial statement referred to in Section 5.1 (other than property disposed of since the date of such financial statements in the ordinary course of business). None of such properties is subject to a Lien, except as allowed under Section 6.12. The Borrower has not subordinated any of its rights under any obligation owing to it to the rights of any other person.

Section 4.11. Taxes. Each of the Borrower and the Subsidiaries has filed all federal, state, and local tax returns required to be filed and has paid or made provision for the payment of all taxes due and payable pursuant to such returns and pursuant to any assessments made against it or any of its property and all other taxes, fees, and other charges imposed on it or any of its property by any governmental authority (other than taxes, fees, or charges the amount or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which reserves in accordance with GAAP have been provided on the books of the Borrower). No tax Liens have been filed and no material claims are being asserted with respect to any such taxes, fees, or charges. The charges, accruals, and reserves on the books of the Borrower in respect of taxes and other governmental charges are adequate, and the Borrower knows of no proposed material tax assessment against it or any Subsidiary or any basis therefor.

Section 4.12. Trademarks; Patents. Each of the Borrower and the Restricted Subsidiaries possesses or has the right to use all of the patents, trademarks, trade names, service marks, and copyrights, and applications therefor, and all technology, know-how, processes, methods, and designs used in or necessary for the conduct of its business, without known conflict with the rights of others.

Section 4.13. Burdensome Restrictions. Neither the Borrower nor any Restricted Subsidiary is a party to or otherwise bound by any indenture, loan or credit agreement, or lease or other agreement or instrument or subject to any charter, corporate, or partnership restriction that could constitute a Material Adverse Occurrence.

Section 4.14. Force Majeure. Since the date of the most recent financial statement referred to in Section 5.1, the business, properties, and other assets of the Borrower and the Restricted Subsidiaries have not been materially and adversely affected in any way as the result of any fire or other casualty, strike, lockout, or other labor trouble, embargo, sabotage, confiscation, condemnation, riot, civil disturbance, activity of armed forces, or act of God.

Section 4.15. Investment Company Act. Neither the Borrower nor any Subsidiary is an “investment company” or a company “controlled” by an investment company within the meaning of the Investment Company Act of 1940, as amended.

Section 4.16. Retirement Benefits. Except as required under § 4980B of the Code, § 601 of ERISA, or applicable state law, the Borrower is not obligated to provide post-retirement medical or insurance benefits with respect to employees or former employees.

Section 4.17. Full Disclosure. Subject to the following sentence, neither the financial statements referred to in Section 5.1 nor any other certificate, written statement, exhibit, or report furnished by or on behalf of the Borrower in connection with or pursuant to this Agreement contains any untrue statement of a material fact or omits any material fact necessary to make the statements therein not misleading. Certificates or statements furnished by or on behalf of the Borrower to the Bank consisting of projections or forecasts of future results or events have been prepared in good faith and based on good faith estimates and assumptions of the management of the Borrower, and the Borrower has no reason to believe that such projections or forecasts are not reasonable.

Section 4.18. Subsidiaries. Schedule 4.18 sets forth as of the date of this Agreement (after giving effect to the Acquisition (Enson)) a list of all Subsidiaries, the number and percentage of the shares of each class of Equity Interests owned beneficially or of record by the Borrower or any Subsidiary therein and the jurisdiction of incorporation of each Subsidiary, and designates whether such Subsidiary is a Restricted Subsidiary.

Section 4.19. Labor Matters. There are no pending or threatened strikes, lockouts, or slowdowns against the Borrower or any Restricted Subsidiary. Neither the Borrower nor any Restricted Subsidiary has been or is in violation in any material respect of the Fair Labor Standards Act or any other applicable federal, state, local, or foreign law dealing with such matters. All payments due from the Borrower or any Restricted Subsidiary on account of wages and employee health and welfare insurance and other benefits (in each case, except for de minimis amounts) have been paid or accrued as a liability on the books of the Borrower or such Restricted Subsidiary. The consummation of the transactions contemplated under the Transaction Documents will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which the Borrower or any Restricted Subsidiary is bound.

Section 4.20. Solvency. As of the Effective Date, after the making of any Loan and giving effect thereto and after giving effect to the Acquisition (Enson), (a) the fair value of the assets of the Borrower will exceed its debts and liabilities, subordinated, contingent, or otherwise; (b) the present fair saleable value of the property of the Borrower will be greater than the amount that will be required to pay the probable liability of its debts and other liabilities,

subordinated, contingent, or otherwise, as such debts and other liabilities become absolute and matured; (c) the Borrower will be able to pay its debts and liabilities, subordinated, contingent, or otherwise, as such debts and liabilities become absolute and matured; and (d) the Borrower will not have unreasonably small capital with which to conduct the business in which it is engaged as such business is proposed to be conducted following the Effective Date.

Section 4.21. Representations and Warranties of Seller. All representations and warranties of the Borrower, and, as of the date hereof, to the knowledge of the Borrower, the Seller (Enson), in the Acquisition Agreement (Enson) are true and correct in all material respects.

ARTICLE V. AFFIRMATIVE COVENANTS

Until any obligation of the Bank hereunder to make the Loans and to issue Letters of Credit has expired or terminated, the Notes and all of the other Obligations have been paid in full, and all outstanding Letters of Credit have expired or the liability of the Bank thereon has otherwise been discharged, unless the Bank otherwise consents in writing:

Section 5.1. Financial Statements and Reports. The Borrower will furnish to the Bank:

(a) As soon as available and in any event within 120 days after the end of each fiscal year of the Borrower, (i) the consolidated financial statements of the Borrower and the Subsidiaries consisting of at least statements of income, cash flow, and changes in stockholders' equity, and a consolidated balance sheet as at the end of such year, setting forth in each case in comparative form corresponding figures from the previous annual audit, certified without qualification by independent certified public accountants of recognized national standing selected by the Borrower and acceptable to the Bank, together with any management letters, management reports, or other supplementary comments or reports to the Borrower or its board of directors furnished by such accountants and (ii) unaudited consolidating financial statements for the Borrower.

(b) As soon as available and in any event within 60 days after the end of each fiscal quarter, unaudited consolidated statements of income, cash flow, and changes in stockholders' equity for the Borrower and the Subsidiaries for such quarter and for the period from the beginning of such fiscal year to the end of such quarter, and a consolidated balance sheet of the Borrower as at the end of such quarter, setting forth in comparative form figures for the corresponding period for the preceding fiscal year, accompanied by a certificate signed by the chief financial officer of the Borrower stating that such financial statements present fairly the financial condition of the Borrower and the Subsidiaries and that the same have been prepared in accordance with GAAP (except for the absence of footnotes and subject to year-end audit adjustments as to the interim statements).

(c) As soon as practicable and in any event within 60 days after the end of each fiscal quarter, a Compliance Certificate in the form of Exhibit C signed by the chief financial officer of the Borrower and demonstrating in reasonable detail compliance (or noncompliance, as the case may be) with Sections 5.14, 6.14, 6.15, and 6.16 as at the end of such quarter and stating that as at the end of such quarter there existed no Default or Event of Default or, if a Default or Event of Default existed,

specifying the nature and period of existence thereof and what action the Borrower proposes to take with respect thereto.

(d) As soon as practicable and in any event within 120 days after the beginning of each fiscal year of the Borrower, statements of forecasted consolidated income for the Borrower and the Subsidiaries on a quarterly basis in such fiscal year and a forecasted consolidated balance sheet of the Borrower and the Subsidiaries, together with supporting assumptions, as at the end of each fiscal quarter, all in reasonable detail and reasonably satisfactory in scope to the Bank.

(e) As soon as practicable and in any event within 30 days after the beginning of each fiscal year of the Borrower ACORD 24 and 25 certificates of insurance with respect to each of the businesses and real properties of the Borrower and its Restricted Subsidiaries in such amounts and with such carriers as are reasonably acceptable to the Bank.

(f) Immediately upon any officer of the Borrower becoming aware of any Default or Event of Default, a notice describing the nature thereof and what action the Borrower proposes to take with respect thereto.

(g) Immediately upon any officer of the Borrower becoming aware of the occurrence, with respect to any Plan, of any Reportable Event or any Prohibited Transaction, a notice specifying the nature thereof and what action the Borrower proposes to take with respect thereto, and, when received, copies of any notice from PBGC of intention to terminate or have a trustee appointed for any Plan.

(h) Immediately upon any officer of the Borrower becoming aware of any matter that has resulted or could result in a Material Adverse Occurrence, a notice from the Borrower describing the nature thereof and what action Borrower proposes to take with respect thereto.

(i) Immediately upon any officer of the Borrower becoming aware of (i) the commencement of any action, suit, investigation, proceeding, or arbitration before any court or arbitrator or any governmental department, board, agency, or other instrumentality affecting the Borrower, any Subsidiary, or any property of such Person, or to which the Borrower or any Subsidiary is a party (other than litigation where insurance insures against the damages claimed and the insurer has assumed defense of the litigation without reservation), in each case in which an adverse determination or result could individually or in the aggregate constitute a Material Adverse Occurrence; or (ii) any adverse ruling that occurs in any litigation, arbitration, or governmental investigation or proceeding previously disclosed by the Borrower or any Subsidiary that, if determined adversely to the Borrower or a Subsidiary, could constitute a Material Adverse Occurrence, a notice from the Borrower describing the nature and status thereof and what action the Borrower proposes to take with respect thereto, to the extent such notice does not violate any confidentiality agreement, order of the court or breach any attorney-client privileged communication provided that the Borrower or such Subsidiary has undertaken good faith efforts to obtain consent to disclosure under such confidentiality agreement or court order and to prepare a disclosure which would not breach attorney-client privileged communication.

(j) Promptly upon the mailing or filing thereof, copies of all financial statements, reports, and proxy statements mailed to the Borrower's shareholders, and copies of all registration statements, periodic reports, and other documents filed with the Securities and Exchange Commission (or any successor thereto) or any national securities exchange.

(k) As promptly as practicable (but in any event not later than 30 days) after any default or breach by the Borrower occurs under the Acquisition Documents (Enson), any senior officer of the Borrower becomes aware or should have become aware of the occurrence of any default or breach by any other party to the Acquisition Documents (Enson), or the Borrower provides or receives any notice of, or of any condition or event that has resulted in, or could reasonably be expected to result in, an indemnity claim under the Acquisition Documents (Enson) by any party thereto, a certificate signed by the chief financial officer, treasurer, or controller of the Borrower specifying in reasonable detail the nature and period of existence thereof and what action the Borrower has taken, is taking, or proposes to take with respect thereto.

(l) From time to time, such other information regarding the business, operation, and financial condition of the Borrower and the Subsidiaries as the Bank reasonably requests.

Section 5.2. Existence. The Borrower shall maintain, and cause each Restricted Subsidiary to maintain, its corporate existence in good standing under the laws of its jurisdiction of organization and its qualification to transact business in each jurisdiction where failure so to qualify would permanently preclude the Borrower or such Restricted Subsidiary from enforcing its rights with respect to any material asset or would expose the Borrower or such Restricted Subsidiary to any material liability; provided, however, that nothing herein shall prohibit the merger or liquidation of any Subsidiary allowed under Section 6.1.

Section 5.3. Insurance. The Borrower shall maintain, and cause each Restricted Subsidiary to maintain, with financially sound and reputable insurance companies such insurance as is required by law and such other insurance in such amounts and against such hazards as is reasonably customary in the case of reputable firms engaged in the same or similar business and similarly situated.

Section 5.4. Payment of Taxes and Claims. The Borrower shall file, and cause each Subsidiary to file, all tax returns and reports required by law to be filed by it and shall pay, and cause each Subsidiary to pay, before they become delinquent all taxes, assessments, and governmental charges and levies imposed upon it or its property and all claims or demands of any kind (including but not limited to those of suppliers, mechanics, carriers, warehouses, landlords, and other like Persons) that, if unpaid, might result in the creation of a Lien upon its property; provided that the foregoing items need not be paid if they are being contested in good faith by appropriate proceedings, as long as the Borrower's or such Subsidiary's title to its property is not materially adversely affected, its use of such property in the ordinary course of its business is not materially interfered with, and adequate reserves with respect thereto have been set aside on its books in accordance with GAAP.

Section 5.5. Inspection. The Borrower shall permit any Person designated by the Bank to visit and inspect any of the properties, books, and financial records of the Borrower and the Subsidiaries, to examine and to make copies of the books of accounts and other financial records of the Borrower and the Subsidiaries, and to discuss the affairs, finances, and accounts of the Borrower and the Subsidiaries with, and to be advised as to the same by, its officers at such reasonable times and intervals as the Bank designates.

Section 5.6. Maintenance of Properties. The Borrower shall maintain, and cause each Restricted Subsidiary to maintain, its properties used or useful in the conduct of its business in good condition, repair, and working order, and supplied with all necessary equipment, and make all necessary repairs, renewals, replacements, betterments, and improvements thereto, all as reasonably necessary for the business carried on in connection therewith to be properly and advantageously conducted at all times.

Section 5.7. Books and Records. The Borrower shall keep, and cause each Subsidiary to keep, adequate and proper records and books of account in which full and correct entries will be made of its dealings, business, and affairs.

Section 5.8. Compliance. The Borrower shall comply, and cause each Restricted Subsidiary to comply, in all material respects with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees, or awards to which it may be subject; provided, however, that failure so to comply shall not be a breach of this covenant if such failure could not constitute a Material Adverse Occurrence and the Borrower or such Restricted Subsidiary is acting in good faith and with reasonable dispatch to cure such noncompliance.

Section 5.9. ERISA. The Borrower shall maintain, and cause each Subsidiary to maintain, each Plan in compliance with all material applicable requirements of ERISA and of the Code and with all applicable rulings and regulations issued under the provisions of ERISA and of the Code and shall not, and shall not permit any of the ERISA Affiliates to, (a) engage in any transaction in connection with which the Borrower or any of the ERISA Affiliates would be subject to either a civil penalty assessed pursuant to § 502(i) of ERISA or a tax imposed by § 4975 of the Code, in either case in an amount exceeding \$50,000, (b) fail to make full payment when due of all amounts that, under the provisions of any Plan, the Borrower or any ERISA Affiliate is required to pay as contributions thereto, or permit to exist any accumulated funding deficiency (as defined in § 302 of ERISA and § 412 of the Code), whether or not waived, with respect to any Plan in an aggregate amount exceeding \$50,000, or (c) fail to make any payments in an aggregate amount exceeding \$50,000 to any Multiemployer Plan that the Borrower or any of the ERISA Affiliates is required to make under any agreement relating to such Multiemployer Plan or any law pertaining thereto.

Section 5.10. Environmental Matters; Reporting. The Borrower shall observe and comply with, and cause each Restricted Subsidiary to observe and comply with, all laws, rules, regulations, and orders of any government or government agency relating to health, safety, pollution, hazardous materials, or other environmental matters to the extent non-compliance could result in a material liability or otherwise constitute a Material Adverse Occurrence. The Borrower shall give the Bank prompt written notice of any violation as to any environmental matter by the Borrower or any Restricted Subsidiary and of the commencement of any judicial or administrative proceeding relating to health, safety, or environmental matters (a) in which an adverse determination or result could result in the revocation of or have a material adverse effect on any operating permits, air emission permits, water discharge permits, hazardous waste permits, or other permits held by the Borrower or any Restricted Subsidiary that are material to the operations of the Borrower or such Restricted Subsidiary, or (b) that will or threatens to impose a material liability on the Borrower or such Restricted Subsidiary to any Person or that

will require a material expenditure by the Borrower or such Restricted Subsidiary to cure any alleged problem or violation.

Section 5.11. Further Assurances. The Borrower shall promptly correct any defect or error that is discovered in any Transaction Document or in the execution, acknowledgment, or recordation thereof. Promptly upon request by the Bank, the Borrower also shall, and shall cause each Restricted Subsidiary to, do, execute, acknowledge, deliver, record, re-record, file, re-file, register, and re-register such deeds, conveyances, mortgages, deeds of trust, trust deeds, assignments, estoppel certificates, financing statements and continuations thereof, notices of assignment, transfers, certificates, assurances, and other instruments as the Bank reasonably requires from time to time (a) to carry out more effectively the purposes of the Loan Documents; and (b) to better assure, convey, grant, assign, transfer, preserve, protect, and confirm unto the Bank the rights granted now or hereafter intended to be granted to the Bank under any Loan Document or under any other instrument executed in connection with any Loan Document or that the Borrower may be or become bound to convey, mortgage, or assign to the Bank to carry out the intention or facilitate the performance of the provisions of any Loan Document. The Borrower shall furnish to the Bank evidence satisfactory to the Bank of every such recording, filing, or registration.

Section 5.12. Compliance with Terms of Material Contracts. The Borrower shall, and shall cause each Restricted Subsidiary to, make all payments and otherwise perform all obligations in respect of all material contracts to which the Borrower or any Restricted Subsidiary is a party, including without limitation the Acquisition Documents (Enson).

Section 5.13. Maintenance of Bank Accounts. The Borrower shall maintain its primary United States borrowing, depository, treasury management, and foreign exchange relationships with the Bank.

Section 5.14. Additional Restricted Subsidiaries. In the event that upon (a) the delivery of a Compliance Certificate pursuant to Section 5.1(c) or (b) the completion of any transaction involving the Borrower or any of its Subsidiaries, including the formation or acquisition of any Subsidiary, the aggregate amount of the consolidated assets or aggregate EBITDA of the Borrower and the Restricted Subsidiaries existing as of the date for which such Compliance Certificate was prepared or upon giving effect to such transaction was, respectively, either less than (i) 70% of the aggregate amount of the consolidated assets of the Borrower and the Borrower's Subsidiaries or (ii) 70% of the aggregate consolidated EBITDA of the Borrower and the Borrower's Subsidiaries, then the Borrower shall, within 30 days thereafter, designate one or more additional Subsidiaries as Restricted Subsidiaries, and each such additional Restricted Subsidiary shall thereafter be a Restricted Subsidiary for all purposes under this Agreement.

ARTICLE VI. NEGATIVE COVENANTS

Until any obligation of the Bank hereunder to make the Loans and to issue Letters of Credit has expired or terminated, the Notes and all of the other Obligations have been paid in full, and all outstanding Letters of Credit have expired or the liability of the Bank thereon has otherwise been discharged, unless the Bank otherwise consents in writing:

Section 6.1. Merger. The Borrower shall not merge, consolidate, or enter into any analogous reorganization or transaction with any Person or liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution) nor permit any Restricted Subsidiary to do any of the foregoing; provided, however, any Subsidiary may be merged with or liquidated into the Borrower or any wholly-owned Subsidiary (if the Borrower or such wholly-owned Subsidiary is the surviving corporation) and after giving effect to such transaction, the Borrower complies with Section 5.14.

Section 6.2. Disposition of Assets. The Borrower shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, sell, assign, lease, convey, transfer, or otherwise dispose of (whether in one transaction or a series of transactions) any property (including accounts and notes receivable, with or without recourse) or enter into any agreement to do any of the foregoing, except:

(a) dispositions of inventory or used, worn-out, or surplus equipment and other equipment no longer useful in the business of the Borrower or a Restricted Subsidiary, in each case determined and disposed of in the ordinary course of business;

(b) the sale of equipment to the extent that such equipment is exchanged for credit against the purchase price of similar replacement equipment, or the proceeds of such sale are applied with reasonable promptness to the purchase price of such replacement equipment; and

(c) other dispositions of property during the term of this Agreement whose net book value in the aggregate does not exceed 5% of the Borrower's total consolidated assets as shown on its balance sheet for its most recent prior fiscal quarter.

Section 6.3. Plans. The Borrower shall not permit, and shall not allow any Subsidiary to permit, any event to occur or condition to exist that would permit any Plan to terminate under any circumstances that would cause the Lien provided for in § 4068 of ERISA to attach to any assets of the Borrower or any Subsidiary; and the Borrower shall not permit, as of the most recent valuation date for any Plan subject to Title IV of ERISA, the present value (determined on the basis of reasonable assumptions employed by the independent actuary for such Plan and previously furnished in writing to the Bank) of such Plan's projected benefit obligations to exceed the fair market value of such Plan's assets.

Section 6.4. Change in Nature of Business. The Borrower shall not, and shall not permit any Restricted Subsidiary to, make any material change in the nature of the business of the Borrower or such Restricted Subsidiary, as carried on at the date hereof.

Section 6.5. Negative Pledges; Subsidiary Restrictions. The Borrower shall not, and shall not permit any Subsidiary to, enter into any agreement, bond, note, or other instrument with or for the benefit of any Person other than the Bank that would (a) except in connection with Liens permitted under Section 6.12, prohibit the Borrower or such Subsidiary from granting, or otherwise limit the ability of the Borrower or such Subsidiary to grant, to the Bank any Lien on any assets or properties of the Borrower or such Subsidiary, or (b) require the Borrower or such Subsidiary to grant a Lien to any other Person if the Borrower or such Subsidiary grants any Lien to the Bank. The Borrower shall not permit any Subsidiary to place or allow any restriction,

directly or indirectly, on the ability of such Subsidiary to (x) pay dividends or any distributions on or with respect to such Subsidiary's capital stock or (y) make loans or other cash payments to the Borrower.

Section 6.6. Restricted Payments. The Borrower shall not make any Restricted Payment if a Default or Event of Default has occurred or is continuing or a Default or Event of Default would exist after giving effect to the making of any such Restricted Payment immediately or by reference to pro forma compliance with under the most recent Compliance Certificate delivered by the Borrower pursuant to Section 5.1(c).

Section 6.7. Transactions with Affiliates. The Borrower shall not, and shall permit any Restricted Subsidiary to, enter into any transaction with any Affiliate of the Borrower, except upon fair and reasonable terms no less favorable than the Borrower, or such Restricted Subsidiary, would obtain in a comparable arm's-length transaction with a Person not an Affiliate.

Section 6.8. Accounting Changes; Acquisition Documents. The Borrower shall not, and shall not permit any Subsidiary to, (a) make any significant change in accounting treatment or reporting practices, except as required by GAAP, or change its fiscal year or the fiscal year of any Subsidiary or (b) amend, modify, or change any of the Acquisition Documents (Enson) in any manner materially adverse in any respect to the rights or interests of the Bank.

Section 6.9. Subordinated Debt. The Borrower shall not, and shall not permit any Restricted Subsidiary to, (a) make any scheduled payment of the principal or interest on any Subordinated Debt that would be prohibited by the terms of such Subordinated Debt and any related subordination agreement; (b) directly or indirectly make any prepayment on or purchase, redeem, or defease any Subordinated Debt or offer to do so (whether such prepayment, purchase or redemption, or offer with respect thereto is voluntary or mandatory); (c) amend or cancel the subordination provisions applicable to any Subordinated Debt; (d) take or omit to take any action if as a result of such action or omission the subordination of such Subordinated Debt, or any part thereof, to the Obligations might be terminated, impaired, or adversely affected; or (e) omit to give the Bank prompt notice of any notice received from any holder of Subordinated Debt, or any trustee therefor, or of any default under any agreement or instrument relating to any Subordinated Debt by reason whereof such Subordinated Debt might become or be declared to be due or payable.

Section 6.10. Investments. The Borrower shall not, and shall not permit any Restricted Subsidiary to, acquire for value, make, have, or hold any Investments, except:

(a) Investments existing on the date of this Agreement identified on Schedule 6.10.

(b) Investments in Subsidiaries after the date of this Agreement, whether through the formation or acquisition of such Subsidiaries, as long as the Borrower has complied with Section 5.14, no Default or Event of Default then exists or would occur as a result of any such Investment, and if any such Investment occurs through an Acquisition, such Acquisition is a Permitted Acquisition.

(c) Investments in joint ventures, provided that no Default or Event of Default then exists or would occur as a result of any such Investment.

(d) Travel advances to management personnel and employees in the ordinary course of business.

(e) Investments in readily marketable direct obligations issued or guaranteed by the United States or any agency thereof and supported by the full faith and credit of the United States.

(f) Certificates of deposit or bankers' acceptances issued by any commercial bank organized under the laws of the United States or any State thereof that has (i) combined capital and surplus of at least \$1,000,000,000, and (ii) a credit rating with respect to its unsecured indebtedness from a nationally recognized rating service that is reasonably satisfactory to the Bank.

(g) Commercial paper given the highest rating by a nationally recognized rating service.

(h) Repurchase agreements relating to securities issued or guaranteed as to principal and interest by the United States of America with a term of not more than 7 days; provided all such agreements shall require physical delivery of the securities securing such repurchase agreement, except those delivered through the Federal Reserve Book Entry System.

(i) Other readily marketable Investments in debt securities that are reasonably acceptable to the Bank.

(j) Any Investment that constitutes a Permitted Acquisition.

(k) Any Investment arising under a Rate Protection Agreement or Foreign Currency Hedging Agreement permitted under Section 6.19.

(l) Other Investments if the aggregate consideration therefor does not exceed \$11,500,000, provided that no Default or Event of Default then exists or would occur as a result of any such Investment.

Any Investments under clauses (e), (f), (g), or (h) above must mature within one year of the acquisition thereof by the Borrower or a Restricted Subsidiary.

Section 6.11. Indebtedness. The Borrower shall not, and shall not permit any Restricted Subsidiary to, incur, create, issue, assume, or suffer to exist any Indebtedness, except:

(a) The Obligations.

(b) Current Liabilities, other than for borrowed money, incurred in the ordinary course of business.

(c) Indebtedness existing on the date of this Agreement and disclosed on Schedule 6.11, including any extension or refinancing thereof as long as the interest rates and other financing charges and fees and the principal amount thereof are not increased.

(d) Indebtedness for the purchase price of equipment used in the ordinary course of the Borrower's business, provided, that in no event shall the amount of such purchase-money indebtedness with respect to any equipment exceed 100% of the fair market value of such equipment.

(e) Indebtedness secured by Liens permitted under Section 6.12.

(f) Indebtedness up to a maximum aggregate amount of \$1,000,000 outstanding at any time incurred in the ordinary course of business and secured by Liens relating to purchase money financing or Capital Lease Obligations.

(g) Any Indebtedness arising under a Rate Protection Agreement or Foreign Currency Hedging Agreement permitted under Section 6.19.

Section 6.12. Liens. The Borrower shall not, and shall not permit any Subsidiary to, create, incur, assume, or suffer to exist any Lien, or enter into, or make any commitment to enter into, any arrangement for the acquisition of any property through conditional sale, lease-purchase, or other title retention agreements, with respect to any property now owned or hereafter acquired by the Borrower or a Subsidiary, except:

(a) Liens at any time created in favor of the Bank.

(b) Liens existing on the date of this Agreement and disclosed on Schedule 6.12.

(c) Deposits or pledges to secure payment of workers' compensation, unemployment insurance, old age pensions, or other social security obligations, in the ordinary course of business of the Borrower or a Subsidiary.

(d) Liens for taxes, fees, assessments, and governmental charges not delinquent or to the extent that payment therefor is not at the time required to be made in accordance with Section 5.4.

(e) Liens of carriers, warehousemen, mechanics, and materialmen, and other like Liens arising in the ordinary course of business, for sums not due or to the extent that payment therefor is not at the time required to be made in accordance with Section 5.4.

(f) Liens incurred or deposits or pledges made or given in connection with, or to secure payment of, indemnity, performance, or other similar bonds.

(g) Liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of set-off, or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution; provided that, as to each deposit account not maintained with the Bank,

(i) such deposit account is not a dedicated cash collateral account and is not subject to restriction against access by the Borrower or a Subsidiary in excess of those set forth by regulations promulgated by the Board, and (ii) such deposit account is not intended by the Borrower or any Subsidiary to provide collateral to the depository institution.

(h) Encumbrances in the nature of zoning restrictions, easements, and rights or restrictions of record on the use of real property and landlord's Liens under leases on the premises rented that do not materially detract from the value of such property or impair the use thereof in the business of the Borrower or a Subsidiary.

(i) The interest of any lessor under any Capitalized Lease entered into after the Effective Date or purchase money Liens on property acquired after the Effective Date; provided, that (i) the

Indebtedness secured thereby is permitted by Section 6.11(f) and (ii) such Liens are limited to the property acquired and do not secure Indebtedness other than the related Capitalized Lease Obligations or the purchase price of such property.

Section 6.13. Contingent Liabilities. The Borrower shall not, and shall not permit any Restricted Subsidiary to, be or become liable on any Contingent Obligations except Contingent Obligations existing on the date of this Agreement and described on Schedule 6.13 and Contingent Obligations for the Bank's benefit.

Section 6.14. Cash Flow Leverage Ratio. The Borrower shall not permit the Cash Flow Leverage Ratio, as of the last day of any fiscal quarter for the four consecutive fiscal quarters ending on that date, to be more than 1.00 to 1.0.

Section 6.15. Fixed Charge Coverage Ratio. The Borrower shall not permit the Fixed Charge Coverage Ratio, as of the last day of any fiscal quarter for the four consecutive fiscal quarters ending on that date, to be less than 2.00 to 1.0.

Section 6.16. Quick Ratio. The Borrower shall not permit the Quick Ratio, as of the end of each fiscal quarter, to be less than 0.90 to 1.0.

Section 6.17. Loan Proceeds. The Borrower shall not, and shall not permit any Subsidiary to, use any part of the proceeds of the Loans directly or indirectly, and whether immediately, incidentally, or ultimately, (a) to purchase or carry margin stock (as defined in Regulation U of the Board) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund Indebtedness originally incurred for such purpose or (b) for any purpose that entails a violation of, or that is inconsistent with, the provisions of Regulations U or X of the Board.

Section 6.18. Sale and Leaseback Transactions. The Borrower shall not, and shall not permit any Restricted Subsidiary to, enter into any arrangement, directly or indirectly, whereby it sells or transfers any property, real or personal, and thereafter leases such property for the same or a substantially similar purpose or purposes as the property sold or transferred.

Section 6.19. Rate Protection and Foreign Currency Hedging Agreements. The Borrower shall not, and shall not permit any Restricted Subsidiary to, enter into any hedging arrangements, other than any Rate Protection Agreements and Foreign Currency Hedging Agreements.

ARTICLE VII. EVENTS OF DEFAULT AND REMEDIES

Section 7.1. Events of Default. The occurrence of any one or more of the following events shall constitute an Event of Default:

(a) The Borrower fails to make when due, whether by acceleration or otherwise, any payment of principal of or interest on the any Note or any other Obligation required to be paid to the Bank pursuant to this Agreement.

(b) Any representation or warranty made by or on behalf of the Borrower or any Subsidiary in this Agreement, any other Loan Document, or any certificate, statement, report, or document herewith or hereafter furnished to the Bank pursuant to this Agreement or any other Loan Document proves to have been false or misleading in any material respect on the date as of which the facts set forth are stated or certified.

(c) The Borrower fails to comply with Sections 5.2 or 5.3 or any section of Article VI hereof.

(d) The Borrower fails to comply with any agreement, covenant, condition, provision, or term in this Agreement (other than those hereinabove set forth in this Section 7.1), and such failure continues for 30 calendar days after the earliest of (i) the date the Borrower gives notice of such failure to the Bank, (ii) the date the Borrower should have given notice of such failure to the Bank pursuant to Section 5.1, or (iii) the date the Bank gives notice of such failure to the Borrower.

(e) The Borrower or any Subsidiary (i) becomes insolvent or generally does not pay its debts as they mature, (ii) applies for, consents to, or acquiesces in the appointment of a custodian, trustee, or receiver of the Borrower or such Subsidiary or for a substantial part of the property thereof, or, in the absence of such application, consent, or acquiescence, a custodian, trustee, or receiver is appointed for the Borrower or a Subsidiary or for a substantial part of the property thereof and is not discharged within 45 days, or (iii) makes an assignment for the benefit of creditors.

(f) Any bankruptcy, reorganization, debt arrangement, or other proceeding under any bankruptcy or insolvency law is instituted by or against the Borrower or any Subsidiary, and, if instituted against the Borrower or any Subsidiary, (i) the Borrower or such Subsidiary has consented thereto or acquiesced therein, (ii) remains undismissed for 60 days, or (iii) an order for relief therein has been entered against the Borrower or such Subsidiary.

(g) Any dissolution or liquidation proceeding not permitted by Section 6.1 is instituted by or against the Borrower or a Subsidiary, and, if instituted against the Borrower or any Subsidiary, is consented to or acquiesced in by the Borrower or such Subsidiary or remains for 45 days undismissed.

(h) A judgment or judgments for the payment of money in excess of the sum of \$500,000 in the aggregate is rendered against the Borrower or a Restricted Subsidiary and either (i) the judgment creditor executes on such judgment or (ii) such judgment remains unpaid or undischarged for more than 60 days from the date of entry thereof or such longer period during which execution of such judgment is stayed during an appeal from such judgment.

(i) The maturity of any material Indebtedness of the Borrower (other than Indebtedness under this Agreement) or a Restricted Subsidiary is accelerated, or the Borrower or a Restricted Subsidiary fails to pay any such material Indebtedness when due (after the lapse of any applicable grace period) or, in the case of Indebtedness payable on demand, when demanded (after the lapse of any applicable grace period), or any event occurs or condition exists and continues for more than the period of grace, if any, applicable thereto and has the effect of causing such material Indebtedness to become due prior to its stated maturity, or permitting the holder of any such Indebtedness or any trustee or other Person acting on behalf of such holder to cause such material Indebtedness to become due prior to its stated maturity or to realize upon any collateral given as security therefor. For purposes of this section, Indebtedness of the Borrower or a Restricted Subsidiary shall be deemed "material" if it exceeds

\$500,000 as to any item of Indebtedness or in the aggregate for all items of Indebtedness with respect to which any of the events described in this Section 7.1(i) has occurred.

(j) Any execution or attachment is issued whereby any substantial part of the property of the Borrower or any Restricted Subsidiary is taken or attempted to be taken and the same is not vacated or stayed within 30 days after the issuance thereof.

(k) This Agreement at any time ceases to be in full force and effect or is judicially declared null and void, or the Borrower contests the validity or enforceability thereof.

(l) The Pledge Agreement, at any time, ceases to be in full force and effect or is judicially declared null and void, the Borrower contests the validity or enforceability thereof, or the Bank ceases to have a valid and perfected security interest having the priority contemplated thereunder in all of the collateral described therein.

(m) Any Change of Control occurs.

(n) The Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs.

(o) Any Material Adverse Occurrence occurs.

Section 7.2. Remedies. If (a) any Event of Default described in Sections 7.1 (e), (f) or (g) occurs with respect to the Borrower, the Revolving Commitment shall automatically terminate, the Notes and all other Obligations shall automatically become immediately due and payable, and the Borrower shall without demand pay into the Holding Account an amount equal to the aggregate face amount of all outstanding Letters of Credit; or (b) any other Event of Default occurs and is continuing, the Bank may (i) declare the Revolving Commitment terminated, whereupon the Revolving Commitment shall terminate, (ii) declare the outstanding unpaid principal balance of the Notes the accrued and unpaid interest thereon, and all other Obligations to be forthwith due and payable, whereupon the Notes, all accrued and unpaid interest thereon, and all such Obligations shall immediately become due and payable, in each case without presentment, demand, protest, or other notice of any kind, all of which are hereby expressly waived, anything in this Agreement or in any Note to the contrary notwithstanding, and (iii) demand that the Borrower pay into the Holding Account an amount equal to the aggregate face amount of all outstanding Letters of Credit. Upon the occurrence of any of the events described in clause (a) or (b) of the preceding sentence the Bank may exercise all rights and remedies under any of the Loan Documents, and enforce all rights and remedies under any applicable law.

Section 7.3. Deposit Accounts; Offset. In addition to the remedies set forth in Section 7.2, upon any Event of Default and thereafter while the same is continuing, the Borrower hereby irrevocably authorizes the Bank to set off any Obligations against all Deposits and any and all claims of the Borrower against the Bank. Such right shall exist whether or not the Bank has made any demand hereunder or under any other Loan Document, whether or not the Obligations, or any part thereof, or Deposits are matured or unmatured, and regardless of the existence or adequacy of any collateral, guaranty, or other security, right, or remedy available to the Bank. The Bank agrees that, as promptly as is reasonably possible after the exercise of any

such setoff or enforcement right, it shall notify the Borrower of its exercise of such setoff or enforcement right; provided, however, that the failure of the Bank to provide such notice shall not affect the validity of the exercise of such setoff or enforcement rights. Nothing in this Agreement shall be deemed a waiver or prohibition of or restriction on the Bank's rights of banker's lien, setoff, and counterclaim available pursuant to law.

**ARTICLE VIII.
MISCELLANEOUS**

Section 8.1. Modifications. Notwithstanding any provisions to the contrary herein, any term of this Agreement may be amended with the written consent of the Borrower; provided that no amendment, modification, or waiver of any provision of this Agreement or consent to any departure by the Borrower therefrom shall in any event be effective unless the same is in writing and signed by the Bank, and then such amendment, modification, waiver, or consent shall be effective only in the specific instance and for the purpose for which given.

Section 8.2. Expenses. Whether or not the transactions contemplated hereby are consummated, the Borrower agrees to pay or reimburse the Bank upon demand for all reasonable out-of-pocket expenses paid or incurred by the Bank, including filing and recording costs and fees, charges and disbursements of outside counsel to the Bank (determined on the basis of such counsel's generally applicable rates, which may be higher than the rates such counsel charges the Bank in certain matters), and/or the allocated costs of in-house counsel incurred from time to time, in connection with the negotiation, preparation, approval, review, execution, delivery, administration, amendment, modification, interpretation, collection, and enforcement of this Agreement and the other Loan Documents and any commitment letters relating thereto paid or incurred by the Bank in connection with the collection and enforcement of this Agreement and any other Loan Document. The Borrower's obligations under this section shall survive any termination of this Agreement. The Bank acknowledges that it has received a deposit of \$10,000 prior to the Effective Date which will be applied toward such expenses and fees described in Section 2.14 and this Section 8.2, with the Borrower paying such additional amounts as may be required to comply with this Section and Section 3.1(e).

Section 8.3. Waivers, Etc. No failure on the part of the Bank or the holder of any Note to exercise and no delay in exercising any power or right hereunder or under any other Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise of any power or right preclude any other or further exercise thereof or the exercise of any other power or right. The remedies herein and in the other Loan Documents provided are cumulative and not exclusive of any remedies provided by law.

Section 8.4. Notices. Except when telephonic notice is expressly authorized by this Agreement, any notice or other communication to any party in connection with this Agreement shall be in writing and shall be sent by manual delivery, facsimile transmission, overnight courier, or United States mail (postage prepaid) addressed to such party at the address specified on the signature page hereof, or at such other address as such party specifies to the other party hereto in writing. All periods of notice shall be measured from the date of delivery if manually delivered, from the date of sending if sent by facsimile transmission, from the first Banking Day after the date of sending if sent by overnight courier, or from four days after the date of mailing

if mailed; provided, however, that any notice to the Bank under Article II hereof shall be deemed to have been given only when received by the Bank.

Section 8.5. Taxes. The Borrower agrees to pay, and save the Bank harmless from all liability for, any stamp or other taxes that may be payable with respect to the execution or delivery of this Agreement or the issuance of the Notes, which obligation of the Borrower shall survive the termination of this Agreement.

Section 8.6. Successors and Assigns; Participations; Purchasing Banks.

(a) This Agreement shall be binding upon and inure to the benefit of the Borrower, the Bank, all future holders of the Note, and their respective successors and assigns, except that the Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of the Bank.

(b) The Bank may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time sell to one or more banks or other financial institutions ("Participants") participating interests in a minimum amount of \$500,000 in any Loan or other Obligation owing to the Bank, any Note, any Commitment, or any other interest of the Bank hereunder. In the event of any such sale by the Bank of participating interests to a Participant, (i) the Bank's obligations under this Agreement to the other parties to this Agreement shall remain unchanged, (ii) the Bank shall remain solely responsible for the performance thereof, (iii) the Bank shall remain the holder of the applicable Note for all purposes under this Agreement, (iv) the Borrower shall continue to deal solely and directly with the Bank in connection with the Bank's rights and obligations under this Agreement, and (v) the agreement pursuant to which such Participant acquires its participating interest herein shall provide that the Bank shall retain the sole right and responsibility to enforce the Obligations, including, without limitation, the right to consent or agree to any amendment, modification, consent, or waiver with respect to this Agreement or any other Loan Document, provided that such agreement may provide that the Bank will not consent or agree to any such amendment, modification, consent, or waiver with respect to the matters set forth in Sections 8.2(a) through (e) without the prior consent of such Participant. The Borrower agrees that if amounts outstanding under this Agreement, the Notes, or the Loan Documents are due and unpaid, or have been declared or have become due and payable upon an Event of Default, each Participant shall be deemed to have, to the extent permitted by applicable law, the right of setoff in respect of its participating interest in amounts owing under this Agreement and the Notes and other Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Bank under this Agreement, a Note, or any other Loan Document. The Borrower also agrees that each Participant shall be entitled to the benefits of Section 2.4 and Section 2.6 with respect to its participation in the Commitments and Loans; provided, that no Participant shall be entitled to receive any greater amount pursuant to such sections than the Bank would have been entitled to receive in respect of the amount of the participation transferred by the Bank to such Participant had no such transfer occurred.

(c) The Borrower shall not be liable for any costs incurred by the Bank in effecting any participation under subparagraph (b) of this subsection and the Bank will reimburse the Borrower for such costs unless the Borrower has, by separate written agreement, agreed to pay such costs.

(d) The Bank may disclose to any assignee or Participant and to any prospective assignee or Participant any and all financial information in the Bank's possession concerning the Borrower or any Subsidiary that has been delivered to the Bank by or on behalf of the Borrower or any Subsidiary pursuant to this Agreement or that has been delivered to the Bank by or on behalf of the Borrower or any Subsidiary in connection with the Bank's credit evaluation of the Borrower or any Subsidiary prior to entering into this Agreement, provided that prior to disclosing such information, the Bank shall first obtain the agreement of such prospective assignee or Participant to comply with the provisions of Section 8.7.

(e) Notwithstanding any other provision in this Agreement, the Bank may at any time create a security interest in, or pledge, all or any portion of its rights under and interest in this Agreement and any note held by it in favor of any federal reserve bank in accordance with Regulation A of the Board or U.S. Treasury Regulation 31 C.F.R § 203.14, and such Federal Reserve Bank may enforce such pledge or security interest in any manner permitted under applicable law.

(f) In connection with this Agreement, the other Transaction Documents, and the transactions and any litigation relating thereto (including in connection with (i) the negotiation, preparation, and execution of the Loan Documents, (ii) the perfection of security interests, if any is hereafter granted, (iii) the completion of any filings or registrations, (iv) the obtaining of any consents, and (v) any present or future legal representation relating to the administration, amendment, modification, waiver, or enforcement of, or any restructuring or forbearance arrangement relating to, any Loan Document), Dorsey & Whitney LLP and any other counsel retained by the Bank in connection with any of such matters (collectively, the "Bank's Counsel") has only represented and shall only represent the Bank. The Borrower and each assignee or Participant of the Bank (by accepting an assignment or a participation under Section 8.6 hereof) agrees and acknowledges that the Bank's Counsel does not represent it, and no attorney-client relationship exists between it and the Bank's Counsel, in connection with any of the matters described in the preceding sentence.

Section 8.7. Confidentiality of Information. The Bank shall use reasonable efforts, but in no event efforts that are less than the efforts the Bank exerts to maintain or protect the confidentiality of its own confidential information, to assure that information about the Borrower and its operations, affairs, and financial condition not generally disclosed to the public or to trade and other creditors that is furnished to the Bank pursuant to the provisions hereof is used only for the purposes of this Agreement, and any other relationship between the Bank and the Borrower shall not be divulged to any Person other than the Bank, its Affiliates, and their respective officers, directors, employees, and agents, except: (a) to their attorneys and accountants, (b) in connection with the enforcement of the rights of the Bank under the Loan Documents or otherwise in connection with applicable litigation, (c) in connection with assignments and participations and the solicitation of prospective assignees and Participants referred to in the immediately preceding section but only after such prospective assignee or Participant has executed the agreement referred to in Section 8.6(d), (d) if such information is generally available to the public other than as a result of disclosure by the Bank or any Participant, (e) to any direct or indirect contractual counterparty in any hedging arrangement or such contractual counterparty's professional advisor but only after such prospective counterparty or professional advisor has executed an agreement similar to the agreement described in Section 8.6(d), (f) to any nationally recognized rating agency that requires information about the Bank's investment portfolio in connection with ratings issued with respect to the Bank, and (g) as may otherwise be

required or requested by any regulatory authority having jurisdiction over the Bank or by any applicable law, rule, regulation, or judicial process, the opinion of the Bank's counsel concerning the making of such disclosure to be binding on the parties hereto. The Bank shall not incur any liability to the Borrower by reason of any disclosure permitted by this section.

Section 8.8. Governing Law and Construction. THE VALIDITY, CONSTRUCTION, AND ENFORCEABILITY OF THIS AGREEMENT AND THE REVOLVING NOTE SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE STATE OF CALIFORNIA, WITHOUT GIVING EFFECT TO CONFLICT OF LAWS PRINCIPLES THEREOF, BUT GIVING EFFECT TO FEDERAL LAWS OF THE UNITED STATES APPLICABLE TO NATIONAL BANKS. Whenever possible, each provision of this Agreement and the other Loan Documents and any other statement, instrument, or transaction contemplated thereby or relating thereto shall be interpreted so as to be effective and valid under such applicable law, but, if any provision of this Agreement, the other Loan Documents, or any other statement, instrument, or transaction contemplated thereby or relating thereto is held to be prohibited or invalid under such applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement, the other Loan Documents, or any other statement, instrument, or transaction contemplated thereby or relating thereto.

Section 8.9. Consent to Jurisdiction. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS MAY BE ENFORCED IN ANY FEDERAL COURT OR CALIFORNIA STATE COURT SITTING IN ORANGE COUNTY, CALIFORNIA OR LOS ANGELES COUNTY, CALIFORNIA; AND THE PARTIES CONSENT TO THE JURISDICTION AND VENUE OF ANY SUCH COURT AND WAIVE ANY ARGUMENT THAT VENUE IN SUCH FORUMS IS NOT CONVENIENT. IN THE EVENT THE BORROWER COMMENCES ANY ACTION IN ANOTHER JURISDICTION OR VENUE UNDER ANY TORT OR CONTRACT THEORY ARISING DIRECTLY OR INDIRECTLY FROM THE RELATIONSHIP CREATED BY THIS AGREEMENT, THE BANK AT ITS OPTION MAY HAVE THE CASE TRANSFERRED TO ONE OF THE JURISDICTIONS AND VENUES ABOVE-DESCRIBED, OR IF SUCH TRANSFER CANNOT BE ACCOMPLISHED UNDER APPLICABLE LAW, TO HAVE SUCH CASE DISMISSED WITHOUT PREJUDICE.

Section 8.10. Judicial Reference Agreement.

(a) Any and all disputes, claims, and controversies arising out of the Loan Documents or the transactions contemplated thereby (including, but not limited to, actions arising in contract or tort and any claims by the Borrower against the Bank related in any way to the Loans) (individually, a "Dispute") that are brought before a forum in which pre-dispute waivers of the right to trial by jury are invalid under applicable law shall be subject to the terms of this Section 8.10.

(b) Any and all Disputes shall be heard by a referee and resolved by judicial reference pursuant to California Code of Civil Procedure Sections 638 et seq. The referee shall be a retired California state court judge or an attorney licensed to practice law in the State of California with at least 10 years' experience practicing commercial law. Neither the Borrower nor the Bank shall seek to appoint a referee that may be disqualified pursuant to California Code of Civil Procedure Section 641 or 641.2 without the prior written consent of the other party. If the Bank and the Borrower are unable to

agree upon a referee within 10 calendar days after one party serves a written notice of intent for judicial reference upon the other party, then the referee will be selected by the court in accordance with California Code of Civil Procedure Section 640(b).

(c) The referee shall render a written statement of decision and shall conduct the proceedings in accordance with the California Code of Civil Procedure, the Rules of Court, and California Evidence Code, except as otherwise specifically agreed by the parties and approved by the referee. The referee's statement of decision shall set forth findings of fact and conclusions of law. The decision of the referee shall be entered as a judgment in the court in accordance with the provisions of California Code of Civil Procedure Sections 644 and 645. The decision of the referee shall be appealable to the same extent and in the same manner that such decision would be appealable if rendered by a judge of the superior court.

(d) Nothing in this Section 8.10 shall be deemed to apply to or limit the right of the Bank (i) to exercise self-help remedies such as (but not limited to) setoff, (ii) to foreclose judicially or nonjudicially against any real or personal property collateral, or to exercise judicial or nonjudicial power of sale rights, (iii) to obtain from a court provisional or ancillary remedies (including, but not limited to, injunctive relief, a writ of possession, prejudgment attachment, a protective order, or the appointment of a receiver), or (iv) to pursue rights against any party in a third-party proceeding in any action brought against the Bank (including actions in bankruptcy court). The Bank may exercise the rights set forth in the foregoing clauses (i) through (iv), inclusive, before, during, or after the pendency of any judicial reference proceeding. Neither the exercise of self-help remedies nor the institution or maintenance of an action for foreclosure or provisional or ancillary remedies or the opposition to any such provisional remedies shall constitute a waiver of the right of any party, including, but not limited to, the claimant in any such action, to require submission to judicial reference of the merits of the Dispute occasioning resort to such remedies. No provision in the Loan Documents regarding submission to jurisdiction and/or venue in any court is intended or shall be construed to be in derogation of the provisions in any Loan Document for judicial reference of any of Dispute.

(e) If a Dispute includes multiple claims, some of which are found not subject to this Section 8.10, the Parties shall stay the proceedings of such Dispute or the part or parts thereof not subject to this Section 8.10 until all other Disputes or parts thereof are resolved in accordance with this Section 8.10. If there are Disputes by or against multiple parties, some of which are not subject to this Section 8.10, the Borrower and the Bank shall sever the Disputes subject to this Section 8.10 and resolve them in accordance with this Section 8.10. During the pendency of any Dispute that is submitted to judicial reference in accordance with this Agreement, each of the parties to such Dispute shall bear equal shares of the fees charged and costs incurred by the referee in performing the services described in this Section 8.10. The compensation of the referee shall not exceed the prevailing rate for like services. The prevailing party shall be entitled to reasonable court costs and legal fees, including customary attorney fees, expert witness fees, paralegal fees, the fees of the referee, a reimbursement of fees and costs paid during the pendency of a dispute in accordance with this Section 8.10(d), and other reasonable costs and disbursements charged to the party by its counsel, in such amount as the Referee determines.

(f) In the event of any challenge to the legality or enforceability of this Section 8.10, the prevailing party shall be entitled to recover the costs and expenses from the non-prevailing party, including reasonable attorneys' fees, incurred by it in connection with such challenge.

(g) THIS SECTION 8.10 CONSTITUTES A “REFERENCE AGREEMENT” BETWEEN THE BORROWER AND THE BANK WITHIN THE MEANING OF AND FOR PURPOSES OF CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 638.

Section 8.11. Survival of Agreement. All representations, warranties, covenants, and agreements made by the Borrower herein, in the other Transaction Documents, and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Transaction Document shall be deemed to have been relied upon by the Bank and shall survive the making of the Loans by the Bank and the execution and delivery to the Bank by the Borrower of the Notes, regardless of any investigation made by or on behalf of the Bank, and shall continue in full force and effect as long as any Obligation is outstanding and unpaid and so long as the Revolving Commitment has not been terminated; provided, however, that the obligations of the Borrower under Sections 8.3, 8.6, and 8.12 shall survive payment in full of the Obligations and the termination of the Revolving Commitment.

Section 8.12. Indemnification. The Borrower hereby agrees to defend, protect, indemnify, and hold harmless the Bank and its Affiliates and the directors, officers, employees, attorneys, and agents of the Bank and its Affiliates (collectively, the “Indemnitees”) from and against any and all claims, actions, damages, liabilities, judgments, costs, and expenses (including all reasonable fees and disbursements of counsel that may be incurred in the investigation or defense of any matter) imposed upon, incurred by, or asserted against any Indemnitee, whether direct, indirect, or consequential and whether based on any federal, state, local, or foreign laws or regulations (including securities laws, environmental laws, commercial laws, and regulations), under common law or on equitable cause, or on contract or otherwise:

(a) by reason of, relating to, or in connection with the execution, delivery, performance, or enforcement of any Transaction Document, any commitments relating thereto, or any transaction contemplated by any Transaction Document; or

(b) by reason of, relating to, or in connection with any credit extended or used under the Loan Documents or any act done or omitted by any Person, or the exercise of any rights or remedies thereunder;

provided, however, that the Borrower shall not be liable to any Indemnitee for any portion of such claims, damages, liabilities, and expenses resulting from such Indemnitee’s gross negligence or willful misconduct. In the event this indemnity is unenforceable as a matter of law as to a particular matter or consequence referred to herein, it shall be enforceable to the full extent permitted by law.

This indemnification applies, without limitation, to any act, omission, event, or circumstance existing or occurring on or prior to the later of the Termination Date or the date of payment in full of the Obligations, including specifically Obligations arising under clause (b) of this section. The indemnification provisions set forth above shall be in addition to any liability the Borrower otherwise has. Without prejudice to the survival of any other obligation of the Borrower hereunder, the indemnities and obligations of the Borrower in this section shall survive the payment in full of the other Obligations.

Section 8.13. Captions. The captions or headings herein and any table of contents hereto are for convenience only and in no way define, limit, or describe the scope or intent of any provision of this Agreement.

Section 8.14. Entire Agreement. This Agreement and the other Loan Documents embody the entire agreement and understanding between the Borrower and the Bank with respect to the subject matter thereof. This Agreement supersedes all prior agreements and understandings relating to the subject matter hereof. Nothing in this Agreement or in any other Loan Document, expressed or implied, is intended to confer upon any Persons other than the parties hereto any rights, remedies, obligations, or liabilities hereunder or thereunder.

Section 8.15. Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Agreement by signing any such counterpart.

Section 8.16. Borrower Acknowledgements. The Borrower hereby acknowledges that (a) it has been advised by counsel in the negotiation, execution, and delivery of this Agreement and the other Loan Documents, (b) the Bank has no fiduciary relationship to the Borrower, the relationship being solely that of debtor and creditor, (c) no joint venture exists between the Borrower and the Bank, and (d) the Bank undertakes no responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the business or operations of the Borrower, the Borrower shall rely entirely upon its own judgment with respect to its business, and any review, inspection, or supervision of, or information supplied to, the Borrower by the Bank is for the protection of the Bank, and neither the Borrower nor any third party is entitled to rely thereon.

Section 8.17. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges, and other amounts that are treated as interest on such Loan under applicable law (collectively, the "Charges"), exceeds the maximum lawful rate (the "Maximum Rate") that may be contracted for, charged, taken, received, or reserved by the Bank in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate, and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this section shall be cumulated, and the interest and Charges payable to the Bank in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until the Bank has received such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

UNIVERSAL ELECTRONICS INC.

By _____
Title _____

Address for Borrower:

6101 Gateway Drive
Cypress, CA 90630
Fax: (714) 820-1151
Attention: Chief Financial Officer

with a required copy to:

6101 Gateway Drive
Cypress, CA 90630
Fax: (714) 820-1151
Attention: General Counsel

U.S. BANK NATIONAL ASSOCIATION

By _____
Title _____

Address for Bank:

4100 Newport Place, Suite 900
Newport Beach, California 92660
Fax: (949) 863-2335
Attention: Steven G. Krenik

REVOLVING NOTE

\$20,000,000

November 1, 2010
Newport Beach, California

FOR VALUE RECEIVED, UNIVERSAL ELECTRONICS INC., a corporation organized under the laws of the State of Delaware, hereby promises to pay to the order of U.S. BANK NATIONAL ASSOCIATION (the "Bank") at its main office in Newport Beach, California, in lawful money of the United States of America in Immediately Available Funds (as such term and each other capitalized term used herein are defined in the Credit Agreement hereinafter referred to) on the Termination Date the principal amount of TWENTY MILLION AND NO/100 DOLLARS (\$20,000,000) or, if less, the aggregate unpaid principal amount of all Revolving Loans made by the Bank under the Credit Agreement, and to pay interest (computed on the basis of actual days elapsed and a year of 360 days) in like funds on the unpaid principal amount hereof from time to time outstanding at the rates and times set forth in the Credit Agreement.

This note is the Revolving Note referred to in the Credit Agreement dated concurrently herewith (as the same may hereafter be from time to time amended, restated, or otherwise modified, the "Credit Agreement") between the undersigned and the Bank. This note is subject to acceleration, upon the terms provided in the Credit Agreement.

In the event of default hereunder, the undersigned agrees to pay all costs and expenses of collection, including reasonable attorneys' fees, in accordance with the terms and conditions set forth in the Credit Agreement. Except as otherwise expressly set forth under the terms and conditions set forth in the Credit Agreement, the undersigned waives demand, presentment, notice of nonpayment, protest, notice of protest, and notice of dishonor.

This note amends and restates the Revolving Note given by the undersigned in favor of the Bank dated December 23, 2009, in the original principal amount of \$15,000,000 (the "Prior Note"). It is expressly intended, understood, and agreed that this note shall replace the Prior Note as evidence of such indebtedness of the undersigned to the Bank, and all indebtedness heretofore represented by the Prior Note, as of the date hereof, shall be considered outstanding hereunder from and after the date hereof and shall not be considered paid (nor shall the undersigned's obligation to pay the same be considered discharged or satisfied) as a result of the issuance of this note.

THE VALIDITY, CONSTRUCTION, AND ENFORCEABILITY OF THIS NOTE SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE STATE OF CALIFORNIA WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF, BUT GIVING EFFECT TO FEDERAL LAWS OF THE UNITED STATES APPLICABLE TO NATIONAL BANKS.

Ex A-1

UNIVERSAL ELECTRONICS INC.

By _____
Title _____

TERM NOTE

\$35,000,000

November 1, 2010
Newport Beach, California

FOR VALUE RECEIVED, UNIVERSAL ELECTRONICS INC., a corporation organized under the laws of the State of Delaware, hereby promises to pay to the order of U.S. BANK NATIONAL ASSOCIATION (the "Bank") at its main office in Newport Beach, California, in lawful money of the United States of America in Immediately Available Funds (as such term and each other capitalized term used herein are defined in the Credit Agreement hereinafter referred to) the principal amount of THIRTY-FIVE MILLION AND NO/100 DOLLARS (\$35,000,000.00) and to pay interest (computed on the basis of actual days elapsed and a year of 360 days) in like funds on the unpaid principal amount hereof from time to time outstanding at the rates and times set forth in the Credit Agreement.

The principal hereof is payable as set forth in the Credit Agreement.

This note is the Term Note referred to in the Credit Agreement of even date herewith (as the same may hereafter be from time to time amended, restated, or otherwise modified, the "Credit Agreement") between the undersigned and the Bank. This note is secured and its maturity is subject to acceleration, in each case upon the terms provided in said Credit Agreement.

In the event of default hereunder, the undersigned agrees to pay all costs and expenses of collection, including reasonable attorneys' fees. The undersigned waives demand, presentment, notice of nonpayment, protest, notice of protest, and notice of dishonor.

THE VALIDITY, CONSTRUCTION, AND ENFORCEABILITY OF THIS NOTE SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE STATE OF CALIFORNIA WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF, BUT GIVING EFFECT TO FEDERAL LAWS OF THE UNITED STATES APPLICABLE TO NATIONAL BANKS.

UNIVERSAL ELECTRONICS, INC.

By _____
Name _____
Title _____

Ex B-1

PLEDGE AGREEMENT

THIS PLEDGE AGREEMENT, dated as of November 1, 2010, is made and given by UEI Hong Kong Private Limited, a company organized under the laws of Hong Kong (the "Pledgor"), and Enson Assets Limited, a company organized under the laws of the British Virgin Islands (the "Issuer"), to U.S. BANK NATIONAL ASSOCIATION (the "Secured Party").

RECITALS

A. Universal Electronics Inc., a Delaware corporation (the "Borrower"), and the Secured Party have entered into a Amended and Restated Credit Agreement of even date herewith (as the same may hereafter be amended, restated, supplemented, or otherwise modified from time to time, the "Credit Agreement") pursuant to which Secured Party has agreed to extend to the Borrower certain credit accommodations, including a term loan facility to finance the acquisition by the Pledgor of all of the capital stock of the Issuer.

B. The Pledgor is the owner of the shares (the "Pledged Shares") of stock described on Schedule I issued by the corporations named therein.

C. It is a condition precedent to the obligation of the Secured Party to extend credit accommodations pursuant to the terms of the Credit Agreement that this Agreement be executed and delivered by the Pledgor and the Issuer.

D. The Pledgor is a wholly-owned subsidiary of the Borrower.

E. The Pledgor and the Issuer expect to derive benefits from the extension of credit accommodations to the Borrower and find it advantageous, desirable, and in their best interests to comply with the requirement that this Agreement be executed and delivered to the Secured Party.

NOW, THEREFORE, in consideration of the premises and to induce the Secured Party to extend or continue credit accommodations to the Borrower, the Pledgor and the Issuer hereby agree with the Secured Party for the for the Secured Party's benefit as follows:.

Section 1. Defined Terms.

1(a) As used in this Agreement, the following terms shall have the meanings indicated:

"Code": Revised Article 9 of the Uniform Commercial Code as adopted in the State of California

"Collateral": As defined in Section 2.

"Event of Default": As defined in Section 11.

“Lien”: Any security interest, mortgage, pledge, lien, charge, encumbrance, title retention agreement, or analogous instrument or device (including the interest of the lessors under capitalized leases) in, of, or on any assets or properties of the Person referred to.

“Obligations”: (a) All indebtedness, liabilities, and obligations of the Borrower to the Secured Party of every kind, nature, or description under the Credit Agreement, including the Borrower’s obligation on any promissory note or notes under the Credit Agreement and any note or notes hereafter issued in substitution or replacement thereof, (b) any and all other liabilities and obligations of the Borrower to the Secured Party of every kind, nature, and description, whether direct or indirect, whether now existing or hereafter acquired by the Secured Party from any Person, and whether absolute or contingent, regardless of how such liabilities arise or by what agreement or instrument they may be evidenced, (c) all liabilities of the Pledgor under any guaranty heretofore, herewith, or hereafter given by the Pledgor to the Secured Party with respect to any or all of the Borrower’s liabilities and obligations to the Secured Party, and (d) all liabilities of the Pledgor under this Agreement, in all of the foregoing cases whether due or to become due and whether now existing or hereafter arising or incurred.

“Person”: Any individual, corporation, partnership, limited partnership, limited liability company, joint venture, firm, association, trust, unincorporated organization, government, governmental agency or political subdivision, or other entity, whether acting in an individual, fiduciary, or other capacity.

“Pledged Shares”: As defined in Recital B above.

“Security Interest”: As defined in Section 2.

“Stock” includes shares.

1(b) Terms Defined in Uniform Commercial Code. All other terms used in this Agreement that are not specifically defined herein or the definitions of which are not incorporated herein by reference shall have the meanings assigned to such terms in the Code.

1(c) Singular/Plural, etc. Unless the context of this Agreement otherwise clearly requires, references to the plural include the singular, references to the singular include the plural, and “or” has the inclusive meaning represented by the phrase “and/or.” The words “include,” “includes,” and “including” shall be deemed to be followed by the phrase “without limitation.” The words “hereof,” “herein,” and “hereunder” and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision. References to Sections are references to Sections in this Agreement unless otherwise provided.

Section 2. Pledge. As security for the payment and performance of all of the Obligations, the Pledgor hereby pledges to the Secured Party and grants to the Secured Party a

security interest (the "Security Interest") in the following (the "Collateral"), including any securities account containing a securities entitlement with respect to the following :

2(a) The Pledged Shares, the certificates representing the Pledged Shares, and all dividends, cash, instruments, and other property from time to time received, receivable, or otherwise distributed in respect of or in exchange for any or all of the Pledged Shares.

2(b) All additional shares of stock of any issuer of the Pledged Shares from time to time acquired by the Pledgor in any manner, the certificates representing such additional shares, and all dividends, cash, instruments, and other property from time to time received, receivable, or otherwise distributed in respect of or in exchange for any or all of such shares.

2(c) All proceeds of any and all of the foregoing (including proceeds that constitute property of types described above).

Section 3. Delivery of Collateral. All certificates and instruments representing or evidencing the Pledged Shares shall be delivered to the Secured Party contemporaneously with the execution of this Agreement. All certificates and instruments representing or evidencing Collateral received by the Pledgor after the execution of this Agreement shall be delivered to the Secured Party promptly upon the Pledgor's receipt thereof. All such certificates and instruments shall be held by or on behalf of the Secured Party pursuant hereto and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to the Secured Party. With respect to all Pledged Shares consisting of uncertificated securities, book-entry securities, or securities entitlements, the Pledgor shall either (a) execute and deliver, and cause any necessary issuers or securities intermediaries to execute and deliver, control agreements in form and substance satisfactory to the Secured Party covering such Pledged Shares, or (b) cause such Pledged Shares to be transferred into the name of the Secured Party. The Secured Party shall have the right at any time, whether before or after an Event of Default, to cause any or all of the Collateral to be transferred of record into the name of the Secured Party or its nominee (but subject to the rights of the Pledgor under Section 6) and to exchange certificates representing or evidencing Collateral for certificates of smaller or larger denominations. If the Collateral is in the possession of a bailee, the Pledgor will join with the Secured Party in notifying the bailee of the interest of the Secured Party and in obtaining from the bailee an acknowledgment that it holds the Collateral for the benefit of the Secured Party.

Section 4. Certain Warranties and Covenants.

4(a) The Pledgor makes the following warranties and covenants:

(i) The Pledgor has title to the Pledged Shares and will have title to each other item of Collateral hereafter acquired, free of all Liens except the Security Interest.

(ii) The Pledgor has full power and authority to execute this Agreement, to perform the Pledgor's obligations hereunder, and to subject the Collateral to the Security Interest.

(iii) No financing statement or other filings or registrations covering all or any part of the Collateral is on file in any public office (except for any financing statements, filings, or registrations filed by the Secured Party).

(iv) The Pledged Shares have been duly authorized and validly issued by the issuer thereof and are fully paid and non-assessable. The Pledged Shares are not subject to any offset or similar right or claim of the issuers thereof.

(v) The Pledged Shares constitute the percentage of the issued and outstanding shares of stock of the respective issuers thereof indicated on Schedule I (if any such percentage is so indicated).

(vi) It shall deliver to the Secured Party the following (within 10 business days after the date hereof): a certified true copy of the register of members of the Issuer, annotated to include details of this Agreement.

4(b) The Issuer makes the following warranties and covenants.

(i) It irrevocably waives:

- i. any first and paramount lien; and
- ii. any rights of forfeiture

that it may have, now or in the future, under its constitutional documents, in relation to the Pledged Shares.

(ii) It irrevocably consents to the transfer of the Pledged Shares pursuant to the enforcement by the Secured Party of any of its rights under this Agreement.

(iii) It shall not issue any shares in the Issuer to any person without the prior written consent of the Secured Party.

(iv) It shall not register the transfer of any charged share to any other person on the Issuer's Register of Members without the prior written consent of the Secured Party.

(v) It shall not continue in a jurisdiction outside of the British Virgin Islands.

(vi) It shall not amend its memorandum of association or articles of association without the prior written consent of the Secured Party.

(vii) It shall make a notation of this Agreement in its Register of Members pursuant to section 66(8) of the Business Companies Act, 2004 (as amended) as in effect in the British Virgin Islands.

(viii) It shall file a copy of its annotated Register of Members with the Companies Registry of the British Virgin Islands.

(ix) It shall promptly register any transfer of title to the Pledged Shares pursuant to any enforcement by the Secured Party of its rights under this Agreement on its Register of Members.

Section 5. Further Assurances. At any time and from time to time, at the expense of the Pledgor, the Pledgor shall promptly execute and deliver all further instruments and documents, and take all further action that may be necessary or that the Secured Party may reasonably request, to perfect and protect the Security Interest or to enable the Secured Party to exercise and enforce its rights and remedies hereunder with respect to any Collateral (but any failure to request or assure that the Pledgor execute and deliver such instruments or documents or to take such action shall not affect or impair the validity, sufficiency, or enforceability of this Agreement and the Security Interest, regardless of whether any such item was or was not executed and delivered or action taken in a similar context or on a prior occasion).

Section 6. Voting Rights; Dividends; Etc.

6(a) Subject to paragraph (d) of this Section 6, the Pledgor shall be entitled to exercise or refrain from exercising any and all voting and other consensual rights pertaining to the Pledged Shares or any other stock that becomes part of the Collateral or any part thereof for any purpose not inconsistent with the terms of this Agreement or the Credit Agreement; provided, however, that the Pledgor shall not exercise or refrain from exercising any such right if such action could reasonably be expected to have a material adverse effect on the value of the Collateral or any material part thereof.

6(b) Subject to paragraph (e) of this Section 6, the Pledgor shall be entitled to receive, retain, and use in any manner not prohibited by the Credit Agreement any and all dividends paid in respect of the Collateral; provided, however, that any and all

(i) dividends paid or payable other than in cash in respect of, and instruments and other property received, receivable, or otherwise distributed in respect of, or in exchange for, any Collateral,

(ii) dividends and other distributions paid or payable in cash in respect of any Collateral in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus, or paid-in-surplus, and

(iii) cash paid, payable, or otherwise distributed in redemption of, or in exchange for, any Collateral,

shall be, and shall be forthwith delivered to the Secured Party to hold as, Collateral and shall, if received by the Pledgor, be received in trust for the benefit of the Secured Party,

be segregated from the other property or funds of the Pledgor, and be forthwith delivered to the Secured Party as Collateral in the same form as so received (with any necessary indorsement or assignment). The Pledgor shall, upon request by the Secured Party, promptly execute all such documents and do all such acts as may be necessary or desirable to give effect to the provisions of this Section 6(b).

6(c) The Secured Party shall execute and deliver (or cause to be executed and delivered) to the Pledgor all such proxies and other instruments as the Pledgor reasonably requests for the purpose of enabling the Pledgor to exercise the voting and other rights that it is entitled to exercise pursuant to Section 6(a) and to receive the dividends that it is authorized to receive and retain pursuant to Section 6(b).

6(d) Upon and during the continuance of any Event of Default, the Secured Party shall have the right in its sole discretion, and the Pledgor shall execute and deliver all such proxies and other instruments as may be necessary or appropriate to give effect to such right, to terminate all rights of the Pledgor to exercise or refrain from exercising the voting and other consensual rights that it would otherwise be entitled to exercise pursuant to Section 6(a), and all such rights shall thereupon become vested in the Secured Party, which shall thereupon have the sole right to exercise or refrain from exercising such voting and other consensual rights; provided, however, that the Secured Party shall not be deemed to possess or have control over any voting rights with respect to any Collateral unless and until the Secured Party has given written notice to the Pledgor that any further exercise of such voting rights by the Pledgor is prohibited and that the Secured Party or its assigns will henceforth exercise such voting rights; and provided, further, that neither the registration of any item of Collateral in the Secured Party's name nor the exercise of any voting rights with respect thereto shall be deemed to constitute a retention by the Secured Party of any such Collateral in satisfaction of the Obligations or any part thereof.

6(e) Upon and during the continuance of any Event of Default:

(i) all rights of the Pledgor to receive the dividends that it would otherwise be authorized to receive and retain pursuant to Section 6(b) shall cease, and all such rights shall thereupon become vested in the Secured Party, which shall thereupon have the sole right to receive and hold such dividends as Collateral, and

(ii) all payments of dividends that are received by the Pledgor contrary to the provisions of paragraph (i) of this Section 6(e) shall be received in trust for the benefit of the Secured Party, shall be segregated from other funds of the Pledgor, and shall be forthwith paid over to the Secured Party as Collateral in the same form as so received (with any necessary indorsement).

Section 7. Transfers and Other Liens; Additional Shares.

7(a) Except as may be permitted by the Credit Agreement, the Pledgor agrees that it will not (i) sell, assign (by operation of law or otherwise), or otherwise dispose of,

or grant any option with respect to, any of the Collateral, or (ii) create or permit to exist any Lien upon or with respect to any of the Collateral.

7(b) The Pledgor agrees that it will (i) cause each issuer of the Pledged Shares that it controls not to issue any stock or other securities in addition to or in substitution for the Pledged Shares issued by such issuer, except to the Pledgor, and (ii) pledge hereunder, immediately upon its acquisition (directly or indirectly) thereof, any and all additional shares of stock or other securities of each issuer of the Pledged Shares.

Section 8. Secured Party Appointed Attorney-in-Fact. As additional security for the Obligations, the Pledgor hereby irrevocably appoints the Secured Party the Pledgor's attorney-in-fact, with full authority in the place and stead of such Pledgor and in the name of such Pledgor or otherwise, from time to time in the Secured Party's good-faith discretion, to take any action and to execute any instrument that the Secured Party may reasonably believe necessary or advisable to accomplish the purposes of this Agreement (subject to the rights of the Pledgor under Section 6), in a manner consistent with the terms hereof, including, without limitation, to receive, indorse, and collect all instruments made payable to the Pledgor representing any dividend or other distribution in respect of the Collateral or any part thereof and to give full discharge for the same.

Section 9. Secured Party May Perform. The Pledgor hereby authorizes the Secured Party to file financing statements, and to otherwise make any filing or registration in any jurisdiction, with respect to the Collateral (including financing statements, filings, and registrations containing a broader description of the Collateral than the description set forth herein). The Pledgor irrevocably waives any right to notice of any such filing. If the Pledgor fails to perform any agreement herein, the Secured Party may itself perform, or cause performance of, such agreement, and the reasonable expenses of the Secured Party incurred in connection therewith shall be payable by the Pledgor under Section 14.

Section 10. The Secured Party's Duties. The powers conferred on the Secured Party hereunder are solely to protect its interest in the Collateral and shall not impose any duty upon it to exercise any such powers. The Secured Party shall be deemed to have exercised reasonable care in the safekeeping of any Collateral in its possession if such Collateral is accorded treatment substantially equal to the safekeeping the Secured Party accords its own property of like kind. Except for the safekeeping of any Collateral in its possession and the accounting for monies and for other properties actually received by it hereunder, the Secured Party shall have no duty, as to any Collateral, as to ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders, or other matters relative to any Collateral, whether or not the Secured Party has or is deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve rights against any Persons or any other rights pertaining to any Collateral. The Secured Party will take action in the nature of exchanges, conversions, redemption, tenders, and the like requested in writing by the Pledgor with respect to any of the Collateral in the Secured Party's possession if the Secured Party in its reasonable judgment determines that such action will not impair the Security Interest or the value of the Collateral, but a failure of the Secured Party to comply with any such request shall not of itself be deemed a failure to exercise reasonable care.

Section 11. Default Each of the following occurrences shall constitute an Event of Default under this Agreement: (a) the Pledgor fails to observe or perform any covenant or agreement applicable to the Pledgor under this Agreement; (b) any representation or warranty made by the Pledgor in this Agreement or in any financial statements, reports, or certificates heretofore or at any time hereafter submitted by or on behalf of the Pledgor to the Secured Party proves to have been false or materially misleading when made; (c) any "Event of Default" occurs under the Credit Agreement; or (d) the Secured Party receives at any time any information indicating that the Security Interest is not enforceable, is not perfected, or is not prior to all other security interests or other interests in the Collateral, except as otherwise agreed by the Secured Party.

Section 12. Remedies upon Default. If any Event of Default has occurred and is continuing:

12(a) The Secured Party may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Code as in effect at that time, and may, without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any exchange or broker's board, at any of the Secured Party's offices, or elsewhere, for cash, on credit, or for future delivery, and upon such other terms as the Secured Party may reasonably believe are commercially reasonable. The Pledgor agrees that, to the extent notice of sale is required by law, at least ten days' prior notice to the Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. The Pledgor hereby waives all requirements of law, if any, relating to the marshalling of assets that would be applicable in connection with the enforcement by the Secured Party of its remedies hereunder, absent this waiver. The Secured Party may disclaim warranties of title and possession and the like.

12(b) The Secured Party may notify any Person obligated on any of the Collateral that the Collateral has been assigned or transferred to the Secured Party and that should be performed as requested by, or paid directly to, the Secured Party, as the case may be. The Pledgor shall join in giving such notice, if the Secured Party so requests. The Secured Party may, in its name or in the Pledgor's name, demand, sue for, collect, or receive any money or property at any time payable or receivable on account of, or securing, any such Collateral or grant any extension to, make any compromise or settlement with, or otherwise agree to waive, modify, amend, or change the obligation of any such Person.

12(c) Any cash held by the Secured Party as Collateral and all cash proceeds received by the Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Secured Party, be held by the Secured Party as collateral for, or then or at any time thereafter be

applied in whole or in part by the Secured Party against, all or any part of the Obligations (including any expenses of the Secured Party payable pursuant to Section 14).

Section 13. Waiver of Certain Claims. The Pledgor acknowledges that because of present or future circumstances, a question may arise under the Securities Act of 1933, as from time to time amended (the "Securities Act"), with respect to any disposition of the Collateral permitted hereunder. The Pledgor understands that compliance with the Securities Act may very strictly limit the course of conduct of the Secured Party if the Secured Party attempts to dispose of all or any portion of the Collateral and may also limit the extent to which or the manner in which any subsequent transferee of the Collateral or any portion thereof may dispose of the same. There may be other legal restrictions or limitations affecting the Secured Party in any attempt to dispose of all or any portion of the Collateral under the applicable Blue Sky or other securities laws or similar laws analogous in purpose or effect. The Secured Party may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such Collateral for their own account for investment only and not to engage in a distribution or resale thereof. The Pledgor agrees that the Secured Party shall not incur any liability, and any liability of the Pledgor for any deficiency shall not be impaired, as a result of the sale of the Collateral or any portion thereof at any such private sale in a manner that the Secured Party reasonably believes is commercially reasonable (within the meaning of Section 9-627 of the Uniform Commercial Code). The Pledgor hereby waives any claims against the Secured Party arising by reason of the fact that the price at which the Collateral has been sold at such sale was less than the price that might have been obtained at a public sale or was less than the aggregate amount of the Obligations, even if the Secured Party accepts the first offer received and does not offer any portion of the Collateral to more than one possible purchaser. The Pledgor further agrees that the Secured Party has no obligation to delay sale of any Collateral for the period of time necessary to permit the issuer of such Collateral to qualify or register such Collateral for public sale under the Securities Act, applicable Blue Sky laws, and other applicable state and federal securities laws, even if said issuer would agree to do so. Without limiting the generality of the foregoing, the provisions of this Section would apply if, for example, the Secured Party placed all or any portion of the Collateral for private placement by an investment banking firm, if such investment banking firm purchased all or any portion of the Collateral for its own account, or if the Secured Party placed all or any portion of the Collateral privately with a purchaser or purchasers.

Section 14. Costs and Expenses; Indemnity. The Pledgor shall pay or reimburse the Secured Party on demand for all reasonable out-of-pocket expenses paid or incurred by the Secured Party, including in each case all filing and recording costs and fees, charges, taxes, and disbursements of outside counsel to the Secured Party (determined on the basis of such counsel's generally applicable rates, which may be higher than the rates such counsel charges the Secured Party in certain matters), and the allocated costs of in-house counsel incurred from time to time, in connection with the creation, perfection, protection, satisfaction, foreclosure, or enforcement of the Security Interest and the preparation, administration, continuance, amendment, collection, and enforcement of this Agreement, and all such costs and expenses shall be part of the Obligations secured by the Security Interest. The Pledgor shall indemnify and hold the Secured Party harmless from and against any and all claims, losses, and liabilities (including reasonable attorneys' fees) growing out of or resulting from this Agreement (including enforcement of this Agreement) or the Secured Party's actions pursuant hereto, except claims, losses, or liabilities

resulting from the Secured Party's gross negligence or willful misconduct as determined by a final judgment of a court of competent jurisdiction. Any liability of the Pledgor to indemnify and hold Secured Party harmless pursuant to the preceding sentence shall be part of the Obligations. The obligations of the Pledgor under this Section shall survive any termination of this Agreement.

Section 15. Waivers and Amendments; Remedies. This Agreement can be waived, modified, amended, terminated, or discharged, and the Security Interest can be released, only explicitly in a writing signed by the Secured Party. A waiver so signed shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any rights and remedies available to the Secured Party. All rights and remedies of the Secured Party shall be cumulative and may be exercised singly in any order or sequence, or concurrently, at the Secured Party's option, and the exercise or enforcement of any such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other.

Section 16. Waiver of Defenses. The Pledgor waives the benefit of any and all defenses and discharges available to a guarantor, surety, indorser, or accommodation party dependent on its character as such. Without limiting the generality of the foregoing, the Pledgor (in such capacity) waives presentment, demand for payment, and notice of nonpayment or protest of any note other instrument evidencing any of the Obligations; and the Pledgor agrees that its liability hereunder and the Security Interest shall not be affected or impaired in any way by any of the following acts and things (which the Secured Party may do from time to time without notice to the Pledgor): (a) by any sale, pledge, surrender, compromise, settlement, release, renewal, extension, indulgence, alteration, substitution, exchange, change in, modification, or other disposition of any of the Obligations or any evidence thereof or any collateral therefor, (b) by any acceptance or release of collateral for or guarantors of any of the Obligations, (c) by any failure, neglect, or omission to realize upon or protect any of the Obligations, to obtain, perfect, enforce, or realize upon any collateral therefor, or to exercise any Lien upon or right of appropriation of any moneys, credits, or property toward the liquidation of any of the Obligations, or (d) by any application of payments or credits upon any of the Obligations. The Secured Party shall not be required, before exercising its rights under this Agreement, to first resort for payment of any of the Obligations to the Borrower or any other Persons, its or their properties or estates, or any collateral, property, Liens, or other rights or remedies whatsoever. The Pledgor agrees not to exercise any right of contribution, recourse, subrogation, or reimbursement available to the Pledgor against the Borrower or any other Person or property, unless and until all Obligations and all other debts, liabilities, and obligations owed by the Borrower and the Pledgor to the Secured Party have been paid and discharged. The Pledgor expects to derive benefits from the transactions resulting in the creation of the Obligations. The Secured Party may rely conclusively on the continuing warranty, hereby made, that the Pledgor continues to be benefited by the Secured Party's extension of credit accommodations to the Borrower, the Secured Party shall have no duty to inquire into or confirm the receipt of any such benefits, and this Agreement shall be effective and enforceable by the Secured Party without regard to the receipt, nature, or value of any such benefits.

Section 17. Notices. Any notice or other communication to any party in connection with this Agreement shall be in writing and shall be sent by manual delivery, facsimile

transmission, overnight courier, or United States mail (postage prepaid) addressed to such party at the address specified on the signature page hereof, or at such other address as such party specifies to the other party hereto in writing. All periods of notice shall be measured from the date of delivery if manually delivered, from the date of sending if sent by facsimile transmission, from the first business day after the date of sending if sent by overnight courier, or from four days after the date of mailing if mailed.

Section 18. Representations and Warranties. The Pledgor hereby represents and warrants to the Secured Party that:

18(a) The Pledgor is duly organized, validly existing, and in good standing under the laws of the jurisdiction of its organization and has the power, authority, and the legal right to own and operate its properties and to conduct the business in which it is currently engaged.

18(b) The Pledgor has the power, authority, and legal right to execute and deliver, and to perform its obligations under, this Agreement and has taken all necessary corporate action to authorize such execution, delivery, and performance.

18(c) This Agreement constitutes a legal, valid, and binding obligation of the Pledgor enforceable in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

18(d) The execution, delivery and performance of this Agreement will not (i) violate any provision of any law, statute, rule, or regulation or any order, writ, judgment, injunction, decree, determination, or award of any court, governmental agency, or arbitrator presently in effect having applicability to the Pledgor, (ii) violate or contravene any provision of the organizational documents of the Pledgor, or (iii) result in a breach of or constitute a default under any indenture, loan, or other agreement, lease, or instrument to which the Pledgor is a party or by which it or any of its properties may be bound or result in the creation of any Lien thereunder. The Pledgor is not in default under or in violation of any such law, statute, rule, regulation, order, writ, judgment, injunction, decree, determination, or award or any such indenture, loan, or other agreement, lease, or instrument in any case in which the consequences of such default or violation could have a material adverse effect on the business, operations, properties, assets, or condition (financial or otherwise) of the Pledgor.

18(e) Except for any filings, recordings, and registrations to perfect the Security Interest, no order, consent, approval, license, authorization, or validation of, filing, recording, or registration with, or exemption by any governmental or public body or authority is required on the part of the Pledgor to authorize, or is required in connection with the execution, delivery, and performance of, or the legality, validity, binding effect, or enforceability of, this Agreement.

18(f) There are no actions, suits, or proceedings pending or, to the knowledge of the Pledgor, threatened against or affecting the Pledgor or any of its properties before any court or arbitrator or any governmental department, board, agency, or other instrumentality that, if determined adversely to the Pledgor, would have a material adverse effect on the business, operations, property, or condition (financial or otherwise) of the Pledgor or on the ability of the Pledgor to perform its obligations hereunder.

Section 19. Pledgor Acknowledgments. The Pledgor hereby acknowledges that (a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement, (b) the Secured Party has no fiduciary relationship to the Pledgor, the relationship being solely that of debtor and creditor, and (c) no joint venture exists between the Pledgor and the Secured Party.

Section 20. Continuing Security Interest; Assignments under Credit Agreement. This Agreement shall create a continuing security interest in the Collateral and shall (a) remain in full force and effect until the payment in full of the Obligations and the expiration of the obligation, if any, of the Secured Party to extend credit accommodations to the Borrower, (b) be binding upon the Pledgor and its successors and assigns, and (c) inure, together with the rights and remedies of the Secured Party hereunder, to the benefit of, and be enforceable by, the Secured Party and its successors, transferees, and assigns. Without limiting the generality of the foregoing clause (c), the Secured Party may assign or otherwise transfer all or any portion of its rights and obligations under the Credit Agreement to any other Person to the extent and in the manner provided in the Credit Agreement, and may similarly transfer all or any portion of its rights under this Agreement to such Persons.

Section 21. Termination of Security Interest. Upon payment in full of the Obligations and the expiration of any obligation of the Secured Party to extend credit accommodations to the Borrower, the Security Interest shall terminate and all rights to the Collateral shall revert to the Pledgor. Upon any such termination, the Secured Party will return to the Pledgor such of the Collateral as has not been sold or otherwise applied pursuant to the terms hereof and execute and deliver to the Pledgor such documents as the Pledgor reasonably requests to evidence such termination. Any reversion or return of the Collateral upon termination of this Agreement and any instruments of transfer or termination shall be at the expense of the Pledgor and shall be without warranty by, or recourse on, the Secured Party. As used in this Section, "Pledgor" includes any assigns of Pledgor, any Person holding a subordinate security interest in any part of the Collateral, or whoever else may be lawfully entitled to any part of the Collateral.

Section 22. Governing Law and Construction. **THE VALIDITY, CONSTRUCTION, AND ENFORCEABILITY OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA; PROVIDED, HOWEVER, THAT NO EFFECT SHALL BE GIVEN TO CONFLICT OF LAWS PRINCIPLES OF THE STATE OF CALIFORNIA, EXCEPT TO THE EXTENT THAT THE VALIDITY OR PERFECTION OF THE SECURITY INTEREST OR REMEDIES HEREUNDER IN RESPECT OF ANY PARTICULAR COLLATERAL ARE MANDATORILY GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF CALIFORNIA.** Whenever possible, each provision of this Agreement and any other statement, instrument, or transaction contemplated hereby or relating hereto shall be interpreted so as to be effective and valid under such applicable law, but if any provision of this

Agreement or any other statement, instrument, or transaction contemplated hereby or relating hereto is held to be prohibited or invalid under such applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision, the remaining provisions of this Agreement or any other statement, instrument, or transaction contemplated hereby or relating hereto.

Section 23. **Consent to Jurisdiction.** AT THE OPTION OF THE SECURED PARTY, THIS AGREEMENT MAY BE ENFORCED IN ANY FEDERAL OR STATE COURT SITTING IN ORANGE COUNTY OR LOS ANGELES COUNTY, CALIFORNIA, AND THE PLEDGOR CONSENTS TO THE JURISDICTION AND VENUE OF SUCH COURTS AND WAIVES ANY ARGUMENT THAT VENUE IN SUCH FORUMS IS NOT CONVENIENT. IF THE PLEDGOR COMMENCES ANY ACTION IN ANOTHER JURISDICTION OR VENUE UNDER ANY TORT OR CONTRACT THEORY ARISING DIRECTLY OR INDIRECTLY FROM THE RELATIONSHIP CREATED BY THIS AGREEMENT, THE SECURED PARTY AT ITS OPTION SHALL BE ENTITLED TO HAVE THE CASE TRANSFERRED TO ONE OF THE JURISDICTIONS AND VENUES ABOVE-DESCRIBED, OR IF SUCH TRANSFER CANNOT BE ACCOMPLISHED UNDER APPLICABLE LAW, TO HAVE SUCH CASE DISMISSED WITHOUT PREJUDICE.

Section 24. **Waiver of Jury Trial.** EACH OF THE PLEDGOR AND THE SECURED PARTY, BY ITS ACCEPTANCE OF THIS AGREEMENT, IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 25. Judicial Reference Agreement.

25(a) Any and all disputes, claims, and controversies arising out of this Agreement or the transactions contemplated thereby (including, but not limited to, actions arising in contract or tort and any claims by the Pledgor against the Secured Party related in any way to the Security Interest or the Obligations) (individually, a "Dispute") that are brought before a forum in which pre-dispute waivers of the right to trial by jury are invalid under applicable law shall be subject to the terms of this Section 25.

25(b) Any and all Disputes shall be heard by a referee and resolved by judicial reference pursuant to California Code of Civil Procedure Sections 638 et seq. The referee shall be a retired California state court judge or an attorney licensed to practice law in the State of California with at least 10 years' experience practicing commercial law. Neither the Pledgor nor the Secured Party shall seek to appoint a referee that may be disqualified pursuant to California Code of Civil Procedure Section 641 or 641.2 without the prior written consent of the other party. If the Secured Party and the Pledgor are unable to agree upon a referee within 10 calendar days after one party serves a written notice of intent for judicial reference upon the other party, then the referee will be selected by the court in accordance with California Code of Civil Procedure Section 640(b).

25(c) The referee shall render a written statement of decision and shall conduct the proceedings in accordance with the California Code of Civil Procedure, the Rules of Court, and California Evidence Code, except as otherwise specifically agreed by the parties and approved by the referee. The referee's statement of decision shall set forth findings of fact and conclusions of law. The decision of the referee shall be entered as a judgment in the court in accordance with the provisions of California Code of Civil Procedure Sections 644 and 645. The decision of the referee shall be appealable to the same extent and in the same manner that such decision would be appealable if rendered by a judge of the superior court.

25(d) Nothing in this Section 25 shall be deemed to apply to or limit the right of the Secured Party (i) to exercise self-help remedies such as (but not limited to) setoff, (ii) to foreclose judicially or nonjudicially against any real or personal property collateral, or to exercise judicial or nonjudicial power of sale rights, (iii) to obtain from a court provisional or ancillary remedies (including, but not limited to, injunctive relief, a writ of possession, prejudgment attachment, a protective order, or the appointment of a receiver), or (iv) to pursue rights against any party in a third-party proceeding in any action brought against the Secured Party (including actions in bankruptcy court). The Secured Party may exercise the rights set forth in the foregoing clauses (i) through (iv), inclusive, before, during, or after the pendency of any judicial reference proceeding. Neither the exercise of self-help remedies nor the institution or maintenance of an action for foreclosure or provisional or ancillary remedies or the opposition to any such provisional remedies shall constitute a waiver of the right of any party, including, but not limited to, the claimant in any such action, to require submission to judicial reference of the merits of the Dispute occasioning resort to such remedies. No provision in the Loan Documents regarding submission to jurisdiction and/or venue in any court is intended or shall be construed to be in derogation of the provisions in any Loan Document for judicial reference of any of Dispute.

25(e) If a Dispute includes multiple claims, some of which are found not subject to this Section 25, the Parties shall stay the proceedings of such Dispute or the part or parts thereof not subject to this Section 25 until all other Disputes or parts thereof are resolved in accordance with this Section 25. If there are Disputes by or against multiple parties, some of which are not subject to this Section 25, the Pledgor and the Secured Party shall sever the Disputes subject to this Section 25 and resolve them in accordance with this Section 25. During the pendency of any Dispute that is submitted to judicial reference in accordance with this Agreement, each of the parties to such Dispute shall bear equal shares of the fees charged and costs incurred by the referee in performing the services described in this Section 25. The compensation of the referee shall not exceed the prevailing rate for like services. The prevailing party shall be entitled to reasonable court costs and legal fees, including customary attorney fees, expert witness fees, paralegal fees, the fees of the referee, a reimbursement of fees and costs paid during the pendency of a dispute in accordance with this Section 25(d), and other reasonable costs and disbursements charged to the party by its counsel, in such amount as the Referee determines.

25(f) In the event of any challenge to the legality or enforceability of this Section 25, the prevailing party shall be entitled to recover the costs and expenses from the non-prevailing party, including reasonable attorneys' fees, incurred by it in connection with such challenge.

25(g) THIS SECTION 25 CONSTITUTES A "REFERENCE AGREEMENT" BETWEEN THE BORROWER AND THE BANK WITHIN THE MEANING OF AND FOR PURPOSES OF CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 638.

Section 26. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

Section 27. General. All representations and warranties in this Agreement or in any other agreement between the Pledgor and the Secured Party shall survive the execution, delivery, and performance of this Agreement and the creation and payment of the Obligations. The Pledgor waives notice of the acceptance of this Agreement by the Secured Party. Captions in this Agreement are for reference and convenience only and shall not affect the interpretation or meaning of any provision of this Agreement.

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IN WITNESS WHEREOF, the Pledgor has caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

PLEDGOR:

UEI HONG KONG PRIVATE LIMITED

By _____
Title _____

ISSUER:

ENSON ASSETS LIMITED

By _____
Title _____

Address for Pledgor:

Fax Number: _____

Address for Secured Party:

U.S. Bank National Association
4100 Newport Place, Suite 900
Newport Beach, California 92660

Fax Number : (949) 863-2335

[Signature Page to Pledge Agreement]

SCHEDULE I

PLEDGED STOCK

Stock Issuer: Enson Assets Limited

Percentage Ownership: 65%

Class of Stock: [common]

Certificate No(s): [____]

Number of Shares: [____]

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Agreement"), dated as of November 1, 2010, and effective as of the Effective Date (defined below), is made and given by UNIVERSAL ELECTRONICS INC., a corporation organized under the laws of the State of Delaware (the "Grantor"), to U.S. BANK NATIONAL ASSOCIATION, a national banking association (the "Secured Party").

RECITALS

A. The Grantor and the Secured Party have entered into a Amended and Restated Credit Agreement dated as of November 1, 2010 (as the same may hereafter be amended, supplemented, extended, restated, or otherwise modified from time to time, the "Credit Agreement") pursuant to which the Secured Party has agreed to extend to the Grantor certain credit accommodations consisting of a revolving credit and a term loan to finance in part the Acquisition (Enson) (as defined in the Credit Agreement).

B. It is a condition precedent to the obligation of the Secured Party to extend credit accommodations pursuant to the terms of the Credit Agreement that this Agreement be executed and delivered by the Grantor.

C. The Grantor finds it advantageous, desirable and in its best interests to comply with the requirement that it execute and deliver this Security Agreement to the Secured Party.

NOW, THEREFORE, in consideration of the premises and to induce the Secured Party to enter into the Credit Agreement and to extend credit accommodations to the Grantor thereunder, the Grantor hereby agrees with the Secured Party for the Secured Party's benefit as follows:

Section 1. Defined Terms.

1(a) As used in this Agreement, the following terms shall have the meanings indicated:

"Account" means a right to payment of a monetary obligation, whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (ii) for services rendered or to be rendered, (iii) for a policy of insurance issued or to be issued, (iv) for a secondary obligation incurred or to be incurred, (v) for energy provided or to be provided, (vi) for the use or hire of a vessel under a charter or other contract, (vii) arising out of the use of a credit or charge card or information contained on or for use with the card, or (viii) as winnings in a lottery or other game of chance operated, sponsored, licensed or authorized by a State or governmental unit of a State, or person licensed or authorized to operate the game by a State or governmental unit of a State. The term includes health-care insurance receivables.

"Account Debtor" means a Person who is obligated on or under any Account, Chattel Paper, Instrument or General Intangible.

“Chattel Paper” means a record or records that evidence both a monetary obligation and a security interest in specific goods, a security interest in specific goods and software used in the goods, a security interest in specific goods and license of software used in the goods, a lease of specific goods, or a lease of specific goods and license of software used in the goods.

“Collateral” means all property and rights in property now owned or hereafter at any time acquired by the Grantor in or upon which a Security Interest is granted to the Secured Party by the Grantor under this Agreement.

“Deposit Account” means any demand, time, savings, passbook or similar account maintained with a bank.

“Document” means a document of title or a warehouse receipt.

“Effective Date” means November 8, 2010, unless the Grantor satisfies all of the conditions set forth in Article III of the Credit Agreement on or before November 8, 2010, in which case this Agreement shall never take effect and shall be null and void.

“Equipment” means all machinery, equipment, motor vehicles, furniture, furnishings and fixtures, including all accessions, accessories and attachments thereto, and any guaranties, warranties, indemnities and other agreements of manufacturers, vendors and others with respect to such Equipment.

“Event of Default” has the meaning given to such term in Section 18.

“Financing Statement” has the meaning given to such term in Section 4.

“Fixtures” means goods that have become so related to particular real property that an interest in them arises under real property law.

“General Intangibles” means any personal property (other than goods, Accounts, Chattel Paper, Deposit Accounts, Documents, Instruments, Investment Property, Letter of Credit Rights, and money) including things in action, contract rights, payment intangibles, software, corporate and other business records, inventions, designs, patents, patent applications, service marks, trademarks, tradenames, trade secrets, internet domain names, engineering drawings, good will, registrations, copyrights, licenses, franchises, customer lists, tax refund claims, royalties, licensing and product rights, rights to the retrieval from third parties of electronically processed and recorded data and all rights to payment resulting from an order of any court.

“Instrument” means a negotiable instrument or any other writing that evidences a right to the payment of a monetary obligation and is not itself a security agreement or lease and is of a type that is transferred in the ordinary course of business by delivery with any necessary endorsement or assignment.

“Inventory” means goods, other than farm products, that are leased by a person as lessor, are held by a person for sale or lease or to be furnished under a contract of service, are furnished by a person under a contract of service, or consist of raw materials, work in process, or materials used or consumed in a business or incorporated or consumed in the production of any of the foregoing and supplies, in each case wherever the same is located, whether in transit, on consignment, in retail outlets, warehouses, terminals or otherwise, and all property the sale, lease or other disposition of which has given rise to an Account and that has been returned to the Grantor or repossessed by the Grantor or stopped in transit.

“Investment Property” means a security, whether certificated or uncertificated, a security entitlement, a securities account and all financial assets therein, a commodity contract or a commodity account.

“Letter of Credit Right” means a right to payment or performance under a letter of credit, whether or not the beneficiary has demanded or is at the time entitled to demand payment or performance.

“Lien” means any security interest, mortgage, pledge, lien, charge, encumbrance, title retention agreement or analogous instrument or device (including the interest of the lessors under capitalized leases), in, of or on any assets or properties of the Person referred to.

“Obligations” means (a) all indebtedness, liabilities and obligations of the Grantor to the Secured Party of every kind, nature or description under the Credit Agreement, including the Grantor’s obligation on any promissory note or notes under the Credit Agreement and any note or notes hereafter issued in substitution or replacement thereof, (b) all liabilities of the Grantor under this Agreement, and (c) any and all other liabilities and obligations of the Grantor to the Secured Party of every kind, nature and description, whether direct or indirect or hereafter acquired by the Secured Party from any Person, absolute or contingent, regardless of how such liabilities arise or by what agreement or instrument they may be evidenced, and in all of the foregoing cases whether due or to become due, and whether now existing or hereafter arising or incurred.

“Person” means any individual, corporation, partnership, limited partnership, limited liability company, joint venture, firm, association, trust, unincorporated organization, government or governmental agency or political subdivision or any other entity, whether acting in an individual, fiduciary or other capacity.

“Security Interest” has the meaning given such term in Section 2.

1(b) All other terms used in this Agreement that are not specifically defined herein shall have the meaning assigned to such terms in Article 9 of the Uniform Commercial Code as in effect in the State of California

1(c) Unless the context of this Agreement otherwise clearly requires, references to the plural include the singular, references to the singular include the plural, and “or” has the inclusive meaning represented by the phrase “and/or.” The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The words “hereof,” “herein,” and “hereunder” and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision. References to Sections are references to Sections in this Agreement unless otherwise provided.

Section 2. Grant of Security Interest. As security for the payment and performance of all of the Obligations, the Grantor hereby grants to the Secured Party a security interest (the “Security Interest”) in all of the Grantor’s right, title, and interest in and to the following, whether now or hereafter owned, existing, arising or acquired and wherever located:

- 2(a) All Accounts.
- 2(b) All Chattel Paper.
- 2(c) All Deposit Accounts.
- 2(d) All Documents.
- 2(e) All Equipment.
- 2(f) All Fixtures.
- 2(g) All General Intangibles.
- 2(h) All Instruments.
- 2(i) All Inventory.
- 2(j) All Investment Property.
- 2(k) All Letter of Credit Rights.

2(l) To the extent not otherwise included in the foregoing, all other rights to the payment of money, including rents and other sums payable to the Grantor under leases, rental agreements and other Chattel Paper; all books, correspondence, credit files, records, invoices, bills of lading, and other documents relating to any of the foregoing, including, without limitation, all tapes, cards, disks, computer software, computer runs, and other papers and documents in the possession or control of the Grantor or any computer bureau from time to time acting for the Grantor; all rights in, to and under all policies insuring the life of any officer, director, stockholder or employee of the Grantor, the proceeds of which are payable to the Grantor; all accessions and additions to, parts and appurtenances of, substitutions for and replacements of any of the foregoing; and all proceeds (including insurance proceeds) and products thereof.

Section 3. Grantor Remains Liable. Anything herein to the contrary notwithstanding, (a) the Grantor shall remain liable under the Accounts, Chattel Paper, General Intangibles and other items included in the Collateral to the extent set forth therein to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed, (b) the exercise by the Secured Party of any of the rights hereunder shall not release the Grantor from any of its duties or obligations under the Accounts or any other items included in the Collateral, and (c) the Secured Party shall have no obligation or liability under Accounts, Chattel Paper, General Intangibles and other items included in the Collateral by reason of this Agreement, nor shall the Secured Party be obligated to perform any of the obligations or duties of the Grantor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

Section 4. Title to Collateral. The Grantor has (or will have at the time it acquires rights in Collateral hereafter acquired or arising) and shall maintain so long as the Security Interest may remain outstanding, title to each item of Collateral (including the proceeds and products thereof), free and clear of all Liens except the Security Interest and except Liens permitted by the Credit Agreement. The Grantor shall not license any Collateral. The Grantor shall defend the Collateral against all claims or demands of all Persons (other than the Secured Party) claiming the Collateral or any interest therein. As of the date of execution of this Security Agreement, no effective financing statement or other similar document used to perfect and preserve a security interest under the laws of any jurisdiction (a "Financing Statement") covering all or any part of the Collateral is on file in any recording office, except such as may have been filed (a) in favor of the Secured Party relating to this Agreement, or (b) to perfect Liens permitted by the Credit Agreement.

Section 5. Disposition of Collateral. The Grantor shall not sell, lease or otherwise dispose of, or discount or factor with or without recourse, any Collateral, except for sales of items of Inventory in the ordinary course of business and dispositions of Equipment that are immediately replaced with comparable replacement equipment.

Section 6. Names, Offices, Locations, Jurisdiction of Organization. The Grantor's legal name (as set forth in its constituent documents filed with the appropriate governmental official or agency) is as set forth in the opening paragraph hereof. The jurisdiction of organization of the Grantor is the state of Delaware, and the organizational number of the Grantor is set forth on the signature page of this Agreement. The Grantor shall from time to time at the request of the Secured Party provide the Secured Party with current good standing certificates and/or state-certified constituent documents from the appropriate governmental officials. The chief place of business and chief executive office of Grantor are located at its address set forth on the signature page hereof. The Grantor shall not locate or relocate any item of Collateral into any jurisdiction in which an additional Financing Statement would be required to be filed to maintain the Secured Party's perfected security interest in such Collateral. The Grantor shall not change its name, the location of its chief place of business and chief executive office or its corporate structure (including without limitation, its jurisdiction of organization) unless the Secured Party has been given at least 30 days' prior written notice thereof and the Grantor has executed and delivered to the Secured Party such Financing Statements and other instruments required or appropriate to continue the perfection of the Security Interest.

Section 7. Rights to Payment. Except as the Grantor otherwise advises the Secured Party in writing, each Account, Chattel Paper, Document, General Intangible and Instrument constituting or evidencing Collateral is (or, in the case of all future Collateral, will be when arising or issued) the valid, genuine and legally enforceable obligation of the Account Debtor or other obligor named therein or in the Grantor's records pertaining thereto as being obligated to pay or perform such obligation. Without the Secured Party's prior written consent, the Grantor shall not agree to any modifications, amendments, subordinations, cancellations or terminations of the obligations of any such Account Debtors or other obligors except in the ordinary course of business and in amounts not exceeding \$10,000 per Account Debtor or other obligor in any calendar year. The Grantor shall perform and comply in all material respects with all its obligations under any items included in the Collateral and exercise promptly and diligently its rights thereunder.

Section 8. Further Assurances; Attorney-in-Fact.

8(a) From time to time, at its expense, the Grantor shall promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or that the Secured Party may reasonably request, in order to perfect and protect the Security Interest or to enable the Secured Party to exercise and enforce its rights and remedies hereunder with respect to any Collateral (but any failure to request or assure that the Grantor execute and deliver such instrument or documents or to take such action shall not affect or impair the validity, sufficiency or enforceability of this Agreement and the Security Interest, regardless of whether any such item was or was not executed and delivered or action taken in a similar context or on a prior occasion). Without limiting the generality of the foregoing, the Grantor shall, promptly and from time to time at the request of the Secured Party: (i) execute and file such Financing Statements or continuation statements in respect thereof, or amendments thereto, and such other instruments or notices (including fixture filings with any necessary legal descriptions as to any goods included in the Collateral that the Secured Party determines might be deemed to be fixtures, and instruments and notices with respect to vehicle titles), as may be necessary or desirable, or as the Secured Party may request, in order to perfect, preserve, and enhance the Security Interest; (ii) obtain from any bailee holding any item of Collateral an acknowledgement, in form satisfactory to the Secured Party that such bailee holds such collateral for the benefit of the Secured Party; (iii) obtain from any securities intermediary, or other party holding any item of Collateral, control agreements in form satisfactory to the Secured Party (iv) and deliver and pledge to the Secured Party, all Instruments and Documents, duly indorsed or accompanied by duly executed instruments of transfer or assignment, with full recourse to the Grantor, all in form and substance satisfactory to the Secured Party; (v) obtain waivers, in form satisfactory to the Secured Party, of any claim to any Collateral from any landlords or mortgagees of any property where any Inventory or Equipment is located.

8(b) The Grantor hereby authorizes the Secured Party to file one or more Financing Statements or continuation statements in respect thereof, and amendments thereto, relating to all or any part of the Collateral without the signature of the Grantor where permitted by law. The Grantor irrevocably waives any right to notice of any such filing. A photocopy or other reproduction of this Agreement or any Financing Statement

covering the Collateral or any part thereof shall be sufficient as a Financing Statement where permitted by law.

8(c) The Grantor shall furnish to the Secured Party from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Secured Party may reasonably request, all in reasonable detail and in form and substance reasonably satisfactory to the Secured Party.

8(d) In furtherance, and not in limitation, of the other rights, powers and remedies granted to the Secured Party in this Agreement, the Grantor hereby appoints the Secured Party the Grantor's attorney-in-fact, with full authority in the place and stead of Grantor and in the name of Grantor or otherwise, from time to time in the Secured Party's good faith discretion, to take any action (including the right to collect on any Collateral) and to execute any instrument that the Secured Party may reasonably believe is necessary or advisable to accomplish the purposes of this Agreement, in a manner consistent with the terms hereof.

Section 9. Taxes and Claims. The Grantor shall promptly pay all taxes and other governmental charges levied or assessed upon or against any Collateral or upon or against the creation, perfection or continuance of the Security Interest, as well as all other claims of any kind (including claims for labor, material and supplies) against or with respect to the Collateral, except to the extent (a) such taxes, charges or claims are being contested in good faith by appropriate proceedings, (b) such proceedings do not involve any material danger of the sale, forfeiture or loss of any of the Collateral or any interest therein and (c) such taxes, charges or claims are adequately reserved against on the Grantor's books in accordance with generally accepted accounting principles.

Section 10. Books and Records. The Grantor shall keep and maintain at its own cost and expense satisfactory and complete records of the Collateral, including a record of all payments received and credits granted with respect to all Accounts, Chattel Paper and other items included in the Collateral.

Section 11. Inspection, Reports, Verifications. The Grantor shall at all reasonable times permit the Secured Party or its representatives to examine or inspect any Collateral, any evidence of Collateral and the Grantor's books and records concerning the Collateral, wherever located. The Grantor shall from time to time when requested by the Secured Party furnish to the Secured Party a report on its Accounts, Chattel Paper, General Intangibles and Instruments, naming the Account Debtors or other obligors thereon, the amount due and the aging thereof. The Secured Party or its designee is authorized to contact Account Debtors and other Persons obligated on any such Collateral from time to time to verify the existence, amount and/or terms of such Collateral.

Section 12. Notice of Loss. The Grantor shall promptly notify the Secured Party of any loss of or material damage to any material item of Collateral or of any substantial adverse change, known to Grantor, in any material item of Collateral or the prospect of payment or performance thereof.

Section 13. Insurance. The Grantor shall keep the Inventory and Equipment insured against “all risks” for the full replacement cost thereof subject to a deductible not exceeding \$10,000 and with an insurance company or companies satisfactory to the Secured Party, the policies to protect the Secured Party as its interests may appear, with such policies or certificates with respect thereto to be delivered to the Secured Party at its request. Each such policy or the certificate with respect thereto shall provide that such policy shall not be canceled or allowed to lapse unless at least 30 days’ prior written notice is given to the Secured Party.

Section 14. Lawful Use; Fair Labor Standards Act. The Grantor shall use and keep the Collateral, and shall require that others use and keep the Collateral, only for lawful purposes, without violation of any federal, state or local law, statute or ordinance. All Inventory of the Grantor as of the date of this Agreement that was produced by the Grantor or with respect to which the Grantor performed any manufacturing or assembly process was produced by the Grantor (or such manufacturing or assembly process was conducted) in compliance in all material respects with all requirements of the Fair Labor Standards Act, and all Inventory produced, manufactured or assembled by the Grantor after the date of this Agreement will be so produced, manufactured or assembled, as the case may be.

Section 15. Action by the Secured Party. If the Grantor at any time fails to perform or observe any of the foregoing agreements, the Secured Party shall have (and the Grantor hereby grants to the Secured Party) the right, power and authority (but not the duty) to perform or observe such agreement on behalf and in the name, place and stead of the Grantor (or, at the Secured Party’s option, in the Secured Party’s name) and to take any and all other actions that the Secured Party may reasonably deem necessary to cure or correct such failure (including, without limitation, the payment of taxes, the satisfaction of Liens, the procurement and maintenance of insurance, the execution of assignments, security agreements and Financing Statements, and the indorsement of instruments); and the Grantor shall thereupon pay to the Secured Party on demand the amount of all monies expended and all costs and expenses (including reasonable attorneys’ fees and legal expenses) incurred by the Secured Party in connection with or as a result of the performance or observance of such agreements or the taking of such action by the Secured Party, together with interest thereon from the date expended or incurred at the highest lawful rate then applicable to any of the Obligations, and all such monies expended, costs and expenses and interest thereon shall be part of the Obligations.

Section 16. Insurance Claims. As additional security for the payment and performance of the Obligations, the Grantor hereby assigns to the Secured Party any and all monies (including proceeds of insurance and refunds of unearned premiums) due or to become due under, and all other rights of the Grantor with respect to, any and all policies of insurance now or at any time hereafter covering the Collateral or any evidence thereof or any business records or valuable papers pertaining thereto. At any time, whether before or after the occurrence of any Event of Default, the Secured Party may (but need not), in the Secured Party’s name or in Grantor’s name, execute and deliver proofs of claim, receive all such monies, indorse checks and other instruments representing payment of such monies, and adjust, litigate, compromise or release any claim against the issuer of any such policy. Notwithstanding any of the foregoing, so long as no Event of Default exists the Grantor shall be entitled to all insurance proceeds with respect to Equipment or Inventory provided that such proceeds are applied to the cost of replacement Equipment or Inventory.

Section 17. The Secured Party's Duties. The powers conferred on the Secured Party hereunder are solely to protect its interest in the Collateral and shall not impose any duty upon it to exercise any such powers. The Secured Party shall be deemed to have exercised reasonable care in the safekeeping of any Collateral in its possession if such Collateral is accorded treatment substantially equal to the safekeeping that the Secured Party accords its own property of like kind. Except for the safekeeping of any Collateral in its possession and the accounting for monies and for other properties actually received by it hereunder, the Secured Party shall have no duty, as to any Collateral, as to ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Collateral, whether or not the Secured Party has or is deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve rights against any Persons or any other rights pertaining to any Collateral. The Secured Party will take action in the nature of exchanges, conversions, redemptions, tenders and the like requested in writing by the Grantor with respect to the Collateral in the Secured Party's possession if the Secured Party in its reasonable judgment determines that such action will not impair the Security Interest or the value of the Collateral, but a failure of the Secured Party to comply with any such request shall not of itself be deemed a failure to exercise reasonable care with respect to the taking of any necessary steps to preserve rights against any Persons or any other rights pertaining to any Collateral.

Section 18. Default. Each of the following occurrences shall constitute an "Event of Default" under this Agreement: (a) the Grantor fails to observe or perform any covenant or agreement applicable to the Grantor under this Agreement; (b) any representation or warranty made by the Grantor in this Agreement or any schedule, exhibit, supplement or attachment hereto or in any financial statements, reports, or certificates heretofore or at any time hereafter submitted by or on behalf of the Grantor to the Secured Party proves to have been false or materially misleading when made; or (c) any "Event of Default" occurs under the Credit Agreement.

Section 19. Remedies on Default. Upon an Event of Default and at any time thereafter:

19(a) The Secured Party may exercise and enforce any and all rights and remedies available upon default to a secured party under Article 9 of the Uniform Commercial Code as in effect in the State of California

19(b) The Secured Party shall have the right to enter upon and into and take possession of all or such part or parts of the properties of the Grantor, including lands, plants, buildings, Equipment, Inventory and other property as may be necessary or appropriate in the judgment of the Secured Party to permit or enable the Secured Party to manufacture, produce, process, store or sell or complete the manufacture, production, processing, storing or sale of all or any part of the Collateral, as the Secured Party may elect, and to use and operate said properties for said purposes and for such length of time as the Secured Party may deem necessary or appropriate for said purposes without the payment of any compensation to Grantor therefor. The Secured Party may require the Grantor to, and the Grantor shall, at its expense and upon request of the Secured Party forthwith, assemble all or part of the Collateral as directed by the Secured Party and make

it available to the Secured Party at a place or places to be designated by the Secured Party.

19(c) Any disposition of Collateral may be in one or more parcels at public or private sale, at any of the Secured Party's offices or elsewhere, for cash, on credit, or for future delivery, and upon such other terms as the Secured Party may reasonably believe are commercially reasonable. The Secured Party shall not be obligated to dispose of Collateral regardless of notice of sale having been given, and the Secured Party may adjourn any public or private sale from time to time by announcement made at the time and place fixed therefor, and such disposition may, without further notice, be made at the time and place to which it was so adjourned.

19(d) The Secured Party is hereby granted a license or other right to use, without charge, all of the Grantor's property, including, without limitation, all of the Grantor's labels, trademarks, copyrights, patents and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale and selling any Collateral, and the Grantor's rights under all licenses and all franchise agreements shall inure to the Secured Party's benefit until the Obligations are paid in full.

19(e) If notice to the Grantor of any intended disposition of Collateral or any other intended action is required by law in a particular instance, such notice shall be deemed commercially reasonable if given in the manner specified for the giving of notice in Section 24 at least ten calendar days prior to the date of intended disposition or other action, and the Secured Party may exercise or enforce any and all other rights or remedies available by law or agreement against the Collateral, against the Grantor, or against any other Person or property. The Secured Party (i) may dispose of the Collateral in its then present condition or following such preparation and processing as the Secured Party deems commercially reasonable, (ii) shall have no duty to prepare or process the Collateral prior to sale, (iii) may disclaim warranties of title, possession, quiet enjoyment and the like, and (iv) may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and none of the foregoing actions shall be deemed to adversely affect the commercial reasonableness of the disposition of the Collateral.

Section 20. Remedies as to Certain Rights to Payment. Upon the occurrence of an Event of Default and at any time thereafter the Secured Party may notify any Account Debtor or other Person obligated on any Accounts or other Collateral that the same have been assigned or transferred to the Secured Party and that the same should be performed as requested by, or paid directly to, the Secured Party, as the case may be. The Grantor shall join in giving such notice, if the Secured Party so requests. The Secured Party may, in the Secured Party's name or in the Grantor's name, demand, sue for, collect or receive any money or property at any time payable or receivable on account of, or securing, any such Collateral or grant any extension to, make any compromise or settlement with or otherwise agree to waive, modify, amend or change the obligation of any such Account Debtor or other Person. If any payments on any such Collateral are received by the Grantor after an Event of Default has occurred, such payments shall be held in trust by the Grantor as the property of the Secured Party and shall not be commingled with any

funds or property of the Grantor and shall be forthwith remitted to the Secured Party for application on the Obligations.

Section 21. Application of Proceeds. All cash proceeds received by the Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Secured Party, be held by the Secured Party as collateral for, or then or at any time thereafter be applied in whole or in part by the Secured Party against, all or any part of the Obligations (including, without limitation, any expenses of the Secured Party payable pursuant to Section 24).

Section 22. Costs and Expenses; Indemnity. The Grantor shall pay or reimburse the Secured Party on demand for all reasonable out-of-pocket expenses paid or incurred by the Secured Party, including in each case all filing and recording costs and fees, taxes, charges and disbursements of outside counsel to the Secured Party (determined on the basis of such counsel's generally applicable rates, which may be higher than the rates such counsel charges the Secured Party in certain matters) and/or the allocated costs of in-house counsel incurred from time to time, in connection with the creation, perfection, protection, satisfaction, foreclosure, collection or enforcement of the Security Interest and the preparation, administration, continuance, amendment or enforcement of this Agreement, and all such costs and expenses shall be part of the Obligations. The Grantor shall indemnify and hold the Secured Party harmless from and against any and all claims, losses and liabilities (including reasonable attorneys' fees) growing out of or resulting from this Agreement and the Security Interest (including enforcement of this Agreement) or the Secured Party's actions pursuant hereto, except claims, losses or liabilities resulting from the Secured Party's gross negligence or willful misconduct as determined by a final judgment of a court of competent jurisdiction. Any liability of the Grantor to indemnify and hold the Secured Party harmless pursuant to the preceding sentence shall be part of the Obligations. The obligations of the Grantor under this Section shall survive any termination of this Agreement.

Section 23. Waivers; Remedies; Marshalling. This Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only explicitly in a writing signed by the Secured Party. A waiver so signed shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any rights and remedies available to the Secured Party. All rights and remedies of the Secured Party shall be cumulative and may be exercised singly in any order or sequence, or concurrently, at the Secured Party's option, and the exercise or enforcement of any such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other. The Grantor hereby waives all requirements of law, if any, relating to the marshalling of assets that would be applicable in connection with the enforcement by the Secured Party of its remedies hereunder, absent this waiver.

Section 24. Notices. Any notice or other communication to any party in connection with this Agreement shall be in writing and shall be sent by manual delivery, facsimile transmission, overnight courier or United States mail (postage prepaid) addressed to such party at the address specified on the signature page hereof, or at such other address as such party specifies to the other party hereto in writing. All periods of notice shall be measured from the date of delivery if manually delivered, from the date of sending if sent by facsimile transmission,

from the first business day after the date of sending if sent by overnight courier, or from four days after the date of mailing if mailed.

Section 25. Grantor Acknowledgments. The Grantor hereby acknowledges that (a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement, (b) the Secured Party has no fiduciary relationship to the Grantor, the relationship being solely that of debtor and creditor, and (c) no joint venture exists between the Grantor and the Secured Party.

Section 26. Continuing Security Interest; Assignments under Credit Agreement. This Agreement shall (a) create a continuing security interest in the Collateral and shall remain in full force and effect until payment in full of the Obligations and the expiration of the obligations, if any, of the Secured Party to extend credit accommodations to the Grantor, (b) be binding upon the Grantor, its successors and assigns, and (c) inure to the benefit of, and be enforceable by, the Secured Party and its successors, transferees, and assigns. Without limiting the generality of the foregoing clause (c), the Secured Party may assign or otherwise transfer all or any portion of its rights and obligations under the Credit Agreement to any other Persons to the extent and in the manner provided in the Credit Agreement and may similarly transfer all or any portion of its rights under this Security Agreement to such Persons.

Section 27. Termination of Security Interest. Upon payment in full of the Obligations and the expiration of any obligation of the Secured Party to extend credit accommodations to the Grantor, the Security Interest shall terminate. Upon any such termination, the Secured Party will return to the Grantor such of the Collateral then in the possession of the Secured Party as have not been sold or otherwise applied pursuant to the terms hereof and execute and deliver to the Grantor such documents as the Grantor reasonably requests to evidence such termination. Any reversion or return of Collateral upon termination of this Agreement and any instruments of transfer or termination shall be at the expense of the Grantor and shall be without warranty by, or recourse on, the Secured Party. As used in this Section, "Grantor" includes any assigns of Grantor, any Person holding a subordinate security interest in any of the Collateral or whoever else may be lawfully entitled to any part of the Collateral.

Section 28. Governing Law and Construction. **THE VALIDITY, CONSTRUCTION, AND ENFORCEABILITY OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT GIVING EFFECT TO CONFLICT OF LAWS PRINCIPLES THEREOF, EXCEPT TO THE EXTENT THAT THE VALIDITY OR PERFECTION OF THE SECURITY INTEREST HEREUNDER, OR REMEDIES HEREUNDER, IN RESPECT OF ANY PARTICULAR COLLATERAL ARE MANDATORILY GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF CALIFORNIA.** Whenever possible, each provision of this Agreement and any other statement, instrument or transaction contemplated hereby or relating hereto shall be interpreted so as to be effective and valid under such applicable law, but if any provision of this Agreement or any other statement, instrument or transaction contemplated hereby or relating hereto is held to be prohibited or invalid under such applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement or any other statement, instrument, or transaction contemplated hereby or relating hereto.

Section 29. **Consent to Jurisdiction.** AT THE OPTION OF THE SECURED PARTY, THIS AGREEMENT MAY BE ENFORCED IN ANY FEDERAL OR STATE COURT SITTING IN ORANGE COUNTY, CALIFORNIA OR LOS ANGELES COUNTY, CALIFORNIA, AND THE GRANTOR CONSENTS TO THE JURISDICTION AND VENUE OF ANY SUCH COURT AND WAIVES ANY ARGUMENT THAT VENUE IN SUCH FORUMS IS NOT CONVENIENT. IF THE GRANTOR COMMENCES ANY ACTION IN ANOTHER JURISDICTION OR VENUE UNDER ANY TORT OR CONTRACT THEORY ARISING DIRECTLY OR INDIRECTLY FROM THE RELATIONSHIP CREATED BY THIS AGREEMENT, THE SECURED PARTY AT ITS OPTION SHALL BE ENTITLED TO HAVE THE CASE TRANSFERRED TO ONE OF THE JURISDICTIONS AND VENUES ABOVE-DESCRIBED, OR IF SUCH TRANSFER CANNOT BE ACCOMPLISHED UNDER APPLICABLE LAW, TO HAVE SUCH CASE DISMISSED WITHOUT PREJUDICE.

Section 30. **Waiver of Notice and Hearing.** THE GRANTOR HEREBY WAIVES ALL RIGHTS TO A JUDICIAL HEARING OF ANY KIND PRIOR TO THE EXERCISE BY THE SECURED PARTY OF ITS RIGHTS TO POSSESSION OF THE COLLATERAL WITHOUT JUDICIAL PROCESS OR OF ITS RIGHTS TO REPLEVY, ATTACH, OR LEVY UPON THE COLLATERAL WITHOUT PRIOR NOTICE OR HEARING. THE GRANTOR ACKNOWLEDGES THAT IT HAS BEEN ADVISED BY COUNSEL OF ITS CHOICE WITH RESPECT TO THIS PROVISION AND THIS AGREEMENT.

Section 31. **Waiver of Jury Trial.** EACH OF THE GRANTOR AND THE SECURED PARTY, BY ITS ACCEPTANCE OF THIS AGREEMENT, IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 32. **Judicial Reference Agreement.**

32(a) Any and all disputes, claims, and controversies arising out of this Agreement or the transactions contemplated thereby (including, but not limited to, actions arising in contract or tort and any claims by the Grantor against the Secured Party related in any way to the Security Interest or the Obligations) (individually, a "Dispute") that are brought before a forum in which pre-dispute waivers of the right to trial by jury are invalid under applicable law shall be subject to the terms of this Section 32.

32(b) Any and all Disputes shall be heard by a referee and resolved by judicial reference pursuant to California Code of Civil Procedure Sections 638 et seq. The referee shall be a retired California state court judge or an attorney licensed to practice law in the State of California with at least 10 years' experience practicing commercial law. Neither the Grantor nor the Secured Party shall seek to appoint a referee that may be disqualified pursuant to California Code of Civil Procedure Section 641 or 641.2 without the prior written consent of the other party. If the Secured Party and the Grantor are unable to agree upon a referee within 10 calendar days after one party serves a written

notice of intent for judicial reference upon the other party, then the referee will be selected by the court in accordance with California Code of Civil Procedure Section 640(b).

32(c) The referee shall render a written statement of decision and shall conduct the proceedings in accordance with the California Code of Civil Procedure, the Rules of Court, and California Evidence Code, except as otherwise specifically agreed by the parties and approved by the referee. The referee's statement of decision shall set forth findings of fact and conclusions of law. The decision of the referee shall be entered as a judgment in the court in accordance with the provisions of California Code of Civil Procedure Sections 644 and 645. The decision of the referee shall be appealable to the same extent and in the same manner that such decision would be appealable if rendered by a judge of the superior court.

32(d) Nothing in this Section 32 shall be deemed to apply to or limit the right of the Secured Party (i) to exercise self-help remedies such as (but not limited to) setoff, (ii) to foreclose judicially or nonjudicially against any real or personal property collateral, or to exercise judicial or nonjudicial power of sale rights, (iii) to obtain from a court provisional or ancillary remedies (including, but not limited to, injunctive relief, a writ of possession, prejudgment attachment, a protective order, or the appointment of a receiver), or (iv) to pursue rights against any party in a third-party proceeding in any action brought against the Secured Party (including actions in bankruptcy court). The Secured Party may exercise the rights set forth in the foregoing clauses (i) through (iv), inclusive, before, during, or after the pendency of any judicial reference proceeding. Neither the exercise of self-help remedies nor the institution or maintenance of an action for foreclosure or provisional or ancillary remedies or the opposition to any such provisional remedies shall constitute a waiver of the right of any party, including, but not limited to, the claimant in any such action, to require submission to judicial reference of the merits of the Dispute occasioning resort to such remedies. No provision in the Loan Documents regarding submission to jurisdiction and/or venue in any court is intended or shall be construed to be in derogation of the provisions in any Loan Document for judicial reference of any of Dispute.

32(e) If a Dispute includes multiple claims, some of which are found not subject to this Section 32, the Parties shall stay the proceedings of such Dispute or the part or parts thereof not subject to this Section 32 until all other Disputes or parts thereof are resolved in accordance with this Section 32. If there are Disputes by or against multiple parties, some of which are not subject to this Section 32, the Grantor and the Secured Party shall sever the Disputes subject to this Section 32 and resolve them in accordance with this Section 32. During the pendency of any Dispute that is submitted to judicial reference in accordance with this Agreement, each of the parties to such Dispute shall bear equal shares of the fees charged and costs incurred by the referee in performing the services described in this Section 32. The compensation of the referee shall not exceed the prevailing rate for like services. The prevailing party shall be entitled to reasonable court costs and legal fees, including customary attorney fees, expert witness fees, paralegal fees, the fees of the referee, a reimbursement of fees and costs paid during the pendency of a dispute in accordance with this Section 32(d), and other reasonable costs

and disbursements charged to the party by its counsel, in such amount as the Referee determines.

32(f) In the event of any challenge to the legality or enforceability of this Section 32, the prevailing party shall be entitled to recover the costs and expenses from the non-prevailing party, including reasonable attorneys' fees, incurred by it in connection with such challenge.

32(g) THIS SECTION 32 CONSTITUTES A "REFERENCE AGREEMENT" BETWEEN THE BORROWER AND THE BANK WITHIN THE MEANING OF AND FOR PURPOSES OF CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 638.

Section 33. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

Section 34. General. All representations and warranties in this Agreement or in any other agreement between the Grantor and the Secured Party shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Obligations. The Grantor waives notice of the acceptance of this Agreement by the Secured Party. Captions in this Agreement are for reference and convenience only and shall not affect the interpretation or meaning of any provision of this Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Grantor has caused this Security Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

UNIVERSAL ELECTRONICS INC.

By _____
Title _____

Address for Grantor:

6101 Gateway Drive
Cypress, CA 90630
Fax (714) 820-1151

Grantor's Tax ID # 2108379

Address for the Secured Party:
U.S. Bank National Association

4100 Newport Place, Suite 900
Newport Beach, California 92660
Fax (949) 863-2335

Signature Page to Security Agreement

Universal Electronics Inc.
List of Subsidiaries of the Registrant

CG Asia Limited (organized under the laws of the British Virgin Islands)

C.G. Development Limited (organized under the laws of Hong Kong)

C.G. Group (organized under the laws of the British Virgin Islands)

C.G. Technology Limited (organized under the laws of Hong Kong)

C.G. Timepiece Limited (organized under the laws of Hong Kong)

Enson Assets Limited (organized under the laws of the British Virgin Islands)

Gemstar Polyfirst Limited (organized under the laws of Hong Kong)

Gemstar Technology (China) Co. Limited (organized under the laws of the People's Republic of China)

Gemstar Technology (Yangzhou) Co. Limited (organized under the laws of the People's Republic of China)

One For All Argentina S.R.L (organized under the laws of Argentina)

One For All France S.A.S. (organized under the laws of France)

One For All GmbH (organized under the laws of Germany)

One For All Iberia S.L. (organized under the laws of Spain)

One For All UK, Ltd. (organized under the laws of the United Kingdom)

UE Singapore Pte. Ltd. (organized under the laws of Republic of Singapore)

UEI do Brasil Controles Remotos Ltda. (organized under the laws of Brazil)

UEI Cayman Inc. (organized under the laws of the Cayman Islands)

UEI Electronics Private Limited (organized under the laws of India)

UEI Hong Kong Holdings Co. Pte. Ltd. (organized under the laws of Hong Kong)

UEI Hong Kong Private Limited (organized under the laws of Hong Kong)

Ultra Control Consumer Electronics GmbH (organized under the laws of Germany)

Universal Electronics BV (organized under the laws of the Netherlands)

Universal Electronics Italia S.R.L. (organized under the laws of Italy)

Universal Electronics (Shenzhen) LLC (organized under the laws of the People's Republic of China)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 16, 2011, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of Universal Electronics Inc. on Form 10-K for the year ended December 31, 2010. We hereby consent to the incorporation by reference of said reports in the Registration Statements of Universal Electronics Inc. on Forms S-8 (File No. 33-66426, effective July 23, 1993, File No. 333-09021, effective August 14, 1996; File No. 333-23985, effective March 26, 1997; File No. 333-91101, effective November 17, 1999; File No. 333-95715, January 31, 2000; File No. 333-47378, effective October 5, 2000; File No. 333-103038, effective February 7, 2003, File No. 333-117782, effective July 30, 2004, and File No. 333-149926, effective March 27, 2008).

/s/ Grant Thornton LLP

Irvine, California
March 16, 2011

Rule 13a-14(a) Certifications

I, Paul D. Arling, certify that:

1. I have reviewed this annual report on Form 10-K 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 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: March 16, 2011

/s/ Paul D. Arling

Paul D. Arling
Chairman and Chief Executive Officer
(principal executive officer)

Rule 13a-14(a) Certifications

I, Bryan M. Hackworth, certify that:

1. I have reviewed this annual report on Form 10-K 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 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: March 16, 2011

/s/ Bryan M. Hackworth

Bryan M. Hackworth

Chief Financial Officer

(principal financial officer and principal accounting officer)

Section 1350 Certifications

Paul D. Arling, as Chief Executive Officer of Universal Electronics Inc. (the "Company"), certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul D. Arling

Paul D. Arling

Chief Executive Officer

March 16, 2011

Section 1350 Certifications

Bryan M. Hackworth, as Chief Financial Officer of Universal Electronics Inc. (the "Company"), certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Bryan M. Hackworth

Bryan M. Hackworth

Chief Financial Officer

March 16, 2011