

**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, 2012**

**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)

**201 E. Sandpointe Avenue, 8<sup>th</sup> Floor  
Santa Ana, California**

(Address of Principal Executive Offices)

**33-0204817**

(I.R.S. Employer  
Identification No.)

**92707**

(Zip Code)

**Registrant's telephone number, including area code: (714) 918-9500**

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

**Common Stock, par value \$.01 per share**

(Title of Class)

**The NASDAQ Global Select Market**

(Name of each exchange on which registered)

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

**None**

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, any Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 29, 2012, the last business day of the registrant's most recently completed second fiscal quarter was \$157,435,695 based upon the closing sale price as reported on the NASDAQ Global Select Market for that date.

On March 8, 2013, 14,957,372 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, 2012 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, 2013.

Except as otherwise stated, the information contained in this Form 10-K is as of December 31, 2012.

Exhibit Index appears on page 76.

**UNIVERSAL ELECTRONICS INC.**  
**Annual Report on Form 10-K**  
**For the Fiscal Year Ended December 31, 2012**

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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 developments relating to products or services; labor issues, particularly in Asia; future economic conditions or performance; pending claims or disputes; expectation or belief; and assumptions underlying any of the foregoing.

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

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

## PART I

### ITEM 1. BUSINESS

#### Business of Universal Electronics Inc.

Universal Electronics Inc. ("UEI") was incorporated under the laws of Delaware in 1986 and began operations in 1987. The principal executive offices are located at 201 E. Sandpointe Avenue, 8th Floor, Santa Ana, California 92707. As used herein, the terms "we", "us" and "our" refer to UEI and its subsidiaries unless the context indicates to the contrary.

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

#### Business Segment

##### Overview

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

- easy-to-use, pre-programmed universal infrared ("IR") and radio frequency ("RF") remote controls that are sold primarily to subscription broadcasting providers (cable, satellite and IPTV), original equipment manufacturers ("OEMs"), retailers, and private label customers;
- audio-video ("AV") accessories sold to consumers;
- integrated circuits, on which our software and universal device control database is embedded, sold primarily to OEMs, subscription broadcasting providers, and private label customers;
- intellectual property which we license primarily to OEMs, software development companies, private label customers, and subscription broadcasting providers; and

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

Our business is comprised of one reportable segment.

#### *Principal Products and Markets*

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

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

For the years ended December 31, 2012, 2011, and 2010, our sales to DIRECTV and its sub-contractors collectively accounted for 16.9%, 12.2%, and 13.7% of our net sales, respectively. For the year ended December 31, 2011, our sales to Sony and its sub-contractors collectively accounted for 10.3% of our net sales. Our sales to Sony and its sub-contractors collectively did not exceed 10% of our net sales for the years ended December 31, 2012 and 2010. Our sales to Comcast Communications, Inc. and its sub-contractors collectively accounted for 12.9% of our net sales for the year ended December 31, 2010. Our sales to Comcast Communications, Inc. and its sub-contractors collectively did not exceed 10% of our net sales for the years ended December 31, 2012 and 2011. No other single customer accounted for 10% or more of our net sales in 2012, 2011, or 2010.

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

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

Our *One For All*<sup>®</sup> brand name remote control and accessories sold within the international retail markets accounted for 10.3%, 9.3%, and 12.4% of our total net sales for the years ended December 31, 2012, 2011, and 2010, respectively. Throughout 2012, we continued our international retail sales and marketing efforts. Financial information relating to our international operations for the years ended December 31, 2012, 2011, and 2010 is included in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-Notes to Consolidated Financial Statements-Note 15".

#### *Intellectual Property and Technology*

We hold a number of patents in the United States and abroad related to our products and technology, and have filed domestic and foreign applications for other patents that are pending. We had a total of 236 and 223 issued and pending United States patents at the end of 2012 and 2011, respectively. The increase in the number of issued and pending patents in the United States resulted from 17 new patent filings, offset by our abandonment of 2 patents and the expiration of 2 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.

A key factor in creating products and software for control of entertainment devices is the device code database. Since our beginning in 1986, we have compiled an extensive device code database library that covers over 713,900 individual device functions and approximately 5,800 individual consumer electronic equipment brand names. Our library is regularly updated

with device codes used in newly introduced AV devices. These device codes are captured directly from the remote control devices or the manufacturer's written specifications to ensure the accuracy and integrity of the database. Our universal remote control database is capable of controlling virtually all IR controlled set-top boxes, televisions, audio components, DVD players, and CD players, as well as most other infrared remote controlled home entertainment devices and home automation control modules worldwide and is growing to include IP control available on many latest generation devices. Our proprietary software and know-how permit us to offer a device code database that is more robust and efficient than similarly priced products of our competitors.

Our goal is to provide solutions that have a simple set-up. For many of our products, the consumer simply inputs a four-digit code for each device to be controlled. We continue to enhance our web-based EZ-RC™ Remote Control Setup Wizard application (which we first developed during 2007) ("EZ-RC™") and release additional products capable of connecting to it. EZ-RC™ built on our strategy of developing new products and technologies to further simplify remote control set-up. Once our wireless device is connected to a personal computer, our customers may utilize the EZ-RC™ graphical interface to fully program the remote control. Each remote control user may create their own personal profile on the device with their favorite channels, custom functions, and more.

UEI QuickSet is a firmware application that is currently embedded in millions of devices globally. UEI QuickSet may be embedded in an AV device, set-top box, or other host device for a universal remote control. 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 device. The two-way connection allows device code data and configuration settings to be sent to the remote control from the device and greatly simplifies the universal remote control set up process and can enable other time saving features. The latest version of UEI QuickSet utilizes data transmitted over HDMI to automatically detect a connected device and then determine and download the correct code into the remote control without the need for the user to enter any additional information. The user does not need to know the brand or model number to setup the device in the remote. Any compatible new device that is connected is recognized. Consumers can easily and quickly set up their remotes to control multiple devices almost effortlessly.

Smart devices are becoming a more prevalent part of the home entertainment experience, and UEI offers several solutions to enable entertainment device control with a smart phone, tablet or smart TV. In its smart device control solutions, UEI offers all of the elements needed for device control from the micro IR blaster chip to the IR database to the user interface for the touchscreen. Nevo is a universal control application solution for tablets and smart phones that UEI has released and that is currently available for download at Google Play and the Apple App Store. In 2012, LG and other major mobile phone and tablet manufacturers added a variety of UEI device control solutions to their products.

#### *Methods of Distribution*

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

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

We provide domestic and international consumer support to our various universal remote control marketers, including manufacturers, cable and satellite providers, retail distributors, and audio and video OEMs through our live and automated call centers. We also make available a web-based support resource, [www.urcsupport.com](http://www.urcsupport.com), designed specifically for subscription broadcasters. This solution offers videos and online tools to help users easily set up their universal remote, and as a result reduce call volume at customer support centers. Additionally, the UEI Technical Supports Services call center provides customer interaction management services from service and support to retention. Services include pre-repair calls, post-install surveys, and inbound calls for cable customers to provide greater bottom-line efficiencies.

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;
- UEI Hong Kong Holdings Co. Pte. Ltd., established in Hong Kong;
- Universal Electronics (Shenzhen) LLC., established in the People's Republic of China ("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 (Yangzhou) Co. Ltd., established in the PRC;
- Gemstar Technology (Qinzhou) Co. Ltd., established in the PRC;
- C.G. Technology Ltd., established in Hong Kong;
- Gemstar Polyfirst Ltd., established in Hong Kong;
- C.G. Timepiece Ltd., established in Hong Kong;
- C.G. Asia Ltd., established in the British Virgin Islands.

### **Raw Materials and Dependence on Suppliers**

We utilize our own manufacturing plants and third-party manufacturers and suppliers primarily located within the PRC to produce our remote control products. In 2012, no single supplier provided more than 10% of our total inventory purchases. In 2011, Samsung provided 10.2% of our total inventory purchases. In 2010, Samsung and Computime each provided more than 10% of our total inventory purchases. They collectively provided 34.2% of our total inventory purchases for 2010.

Even though we own and operate two factories in the PRC and one assembly plant in Brazil, we continue to evaluate additional contract manufacturers and sources of supply. During 2012, we utilized multiple contract manufacturers and maintained duplicate tooling for certain of our products. Where possible we utilize standard parts and components, which are available from multiple sources. We continually seek additional sources to reduce our dependence on our integrated circuit suppliers. To further manage our integrated circuit supplier dependence, we include flash microcontroller technology in most of our products. Flash microcontrollers can have shorter lead times than standard microcontrollers and may be reprogrammed, if necessary. This allows us flexibility during any unforeseen shipping delays and has the added benefit of potentially reducing excess and obsolete inventory exposure. This diversification lessens our dependence on any one supplier and allows us to negotiate more favorable terms.

### **Seasonality**

Historically, our business has been influenced by the retail sales cycle, with increased sales in the second half of the year. We expect this pattern to be repeated during 2013.

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

### **Competition**

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

## Engineering, Research and Development

During 2012, 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;
- 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 device codes to include codes for new features and devices introduced worldwide.

During 2012, our advanced engineering efforts focused on further developing our existing products, services and technologies. We released software updates to our web-based EZ-RC™ application as well as our embedded UEI QuickSet application, and we kicked off new development projects for emerging RF technologies, such as RF4CE, Bluetooth and Wi-Fi Direct. We also continued work on a Modular Remote Framework ("MoRF") tool to support flexible portability of our software solutions to existing and future silicon platforms. Additionally, we released several new products in our subscription broadcast, OEM and consumer retail channels during 2012.

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

Our expenditures on engineering, research and development were:

(in millions):	2012	2011	2010
Research and development	\$ 14.2	\$ 12.3	\$ 10.7
Engineering <sup>(1)</sup>	8.6	9.8	9.5
Total engineering, research and development	\$ 22.8	\$ 22.1	\$ 20.2

<sup>(1)</sup> 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. Our European subsidiaries are WEEE compliant. Similar legislation has been or may be enacted in other jurisdictions, including in the United States, Canada, Mexico, PRC and Japan.

We believe that we have materially complied with all currently existing international and domestic federal, state and local statutes and regulations regarding environmental standards and occupational safety and health matters to which we are subject. During the years ended December 31, 2012, 2011 and 2010, 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, 2012, we employed 1,807 employees, of which 445 worked in engineering and research and development, 78 in sales and marketing, 112 in consumer service and support, 951 in operations and warehousing and 221 in executive and administrative functions. In addition, Enson has an additional 6,762 staff contracted through agency agreements.



Labor unions represent approximately 4.6% of our 1,807 employees. These unionized workers, employed within Manaus, Brazil, are represented under contract with the Sindicato dos Trabalhadores das Industrias de Aparelhos Elétricos, Eletrônicos e Similares de Manaus. Our business units are subject to various laws and regulations relating to their relationships with their employees. These laws and regulations are specific to the location of each business unit. We believe that our relationships with employees and their representative organizations are good.

## International Operations

Financial information relating to our international operations for the years ended December 31, 2012, 2011 and 2010 is incorporated by reference to "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 15".

## Executive Officers of the Registrant<sup>(1)</sup>

The following table sets forth certain information concerning our executive officers on March 14, 2013:

Name	Age	Position
Paul D. Arling	50	Chairman of the Board and Chief Executive Officer
Paul J.M. Bennett	57	Executive Vice President, Managing Director, Europe
Mark S. Kopaskie	55	Executive Vice President, General Manager U.S. Operations
Richard A. Firehammer, Jr.	55	Senior Vice President, General Counsel and Secretary
Bryan M. Hackworth	43	Senior Vice President and Chief Financial Officer

<sup>(1)</sup> 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 2012 Annual Meeting of Stockholders, Mr. Arling was re-elected as our Chairman to serve until the 2013 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 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<sup>®</sup> 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 SEC), 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. We therefore caution you not to rely unduly on any forward-looking statements. The forward-looking statements in this report speak only as of the date of this report, and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

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 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, and digital media and interactive technology; our inability to add profitable complementary products which are accepted by the marketplace; our inability to attract and retain a 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 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; our inability to develop new and innovative technologies and products that are accepted by our 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 SEC.

### *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 government of the PRC has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy, through regulation and state ownership. Our ability to operate in the PRC may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, labor and social insurance, import and export tariffs, raw materials, environmental regulations, land use rights, property and other matters.

*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.*

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. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our business. If the relevant authorities find that we are in violation of PRC laws or regulations, they would have broad discretion in dealing with such a violation, including, without limitation:

- levying fines;

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

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

Under Chinese monetary policy, the Chinese Yuan Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This policy, which was initiated during 2005, has resulted in an approximately 23.2% appreciation of the Chinese Yuan Renminbi against the U.S. dollar as of December 31, 2012. While the international reaction to the Chinese Yuan Renminbi revaluation has been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Chinese Yuan Renminbi against the U.S. dollar.

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

The PRC legal and judicial system may negatively impact foreign investors and are still rudimentary, with enforcement of existing laws inconsistent. In addition, the promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign investors.

*Availability of adequate workforce levels*

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

*Expansion in the PRC*

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.

*Risks Related to the Continued Financial and Economic Crisis and Recession 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.

*Dependence upon Key Suppliers*

During 2011, Samsung provided \$29.1 million, or 10.2%, of our total inventory purchases. During 2010, Samsung and Computime 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.

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 two sources. To reduce our dependence on our integrated circuits suppliers we continually seek additional sources. We 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.

*Disruption of Our Supply Chain May Have an Adverse Effect on Our Business, Financial Condition and Results of Operations*

Our ability, including manufacturing or distribution capabilities, and that of our suppliers, business partners and contract manufacturers, to make, move and sell products is critical to our success. Damage or disruption to our or their manufacturing or distribution capabilities due to weather, natural disaster, fire or explosion, terrorism, pandemics, strikes, or other reasons, may impair our ability to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, may adversely affect our business, financial condition and results of operations, as well as require additional resources to restore our supply chain.

*Dependence on Foreign Manufacturing*

Even after our acquisition of the factories in the PRC, third-party manufacturers located in the PRC continue to manufacture a portion 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, changes in laws and policies (including fiscal policies), 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.

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.

During the year ended December 31, 2012, we had sales to DIRECTV and its sub-contractors, that when combined, totaled 10% or more of our net sales. During the year ended December 31, 2011, we had sales to Sony and its sub-contractors and to DIRECTV and its sub-contractors, that when combined, each totaled 10% or more of our net sales. During the year ended December 31, 2010, we had sales to DIRECTV and its sub-contractors and to Comcast and its sub-contractors, that when combined, each exceeded 10% of our net sales. The loss of any 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 continue to use outside resources to assist us in the development of some of our products and technologies. 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 and technologies may be substantially delayed, which may have a material adverse effect on our operating results, financial condition and cash flows.

#### Competition

Competition within the wireless control industry is 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 our business is not 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 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 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;
- so called "Acts of God", such as hurricanes, earthquakes, tsunamis, and other natural disasters, man-made disasters, and the spread of contagious diseases, such as H1N1 Flu, Avian Flu, and SARS, in locations where we own, manage or operate our business;
- currency fluctuations affecting gross margins, particularly in the Euro, British Pound, Chinese Yuan Renminbi, Indian Rupee, Singapore dollar, Argentinian Peso, and Brazilian Real;
- 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.

### Our Brand Quality and Reputation

Our business depends on the quality and reputation of our brands, and any deterioration in the quality or reputation of these brands may have an adverse impact on our market share, reputation, business, financial condition or results of operations. Events that may be beyond our control may affect the reputation of one or more of our properties or more generally impact the reputation of our brands. If the reputation or perceived quality of our brands declines, our market share, reputation, business, financial condition or results of operations may be affected.

### Failure to Maintain the Integrity of Internal or Customer Data May Result in Faulty Business Decisions, Operational Inefficiencies, Damage of Reputation and/or Subject Us to Costs, Fines, or Lawsuits

Our business requires collection and retention of large volumes of internal and customer data, including personally identifiable information of our customers in various information systems that we maintain and in those maintained by third parties with whom we contract to provide services, including in areas such as human resources outsourcing, website hosting, and email marketing. We also maintain personally identifiable information about our employees. The integrity and protection of that customer, employee, and company data is critical to us. If that data is inaccurate or incomplete, we may make faulty decisions. Our customers and employees also have a high expectation that we and our service providers will adequately protect their personal information. The regulatory environment as well as the requirements imposed on us regarding such information, security and privacy is also increasingly demanding, in both the United States and other jurisdictions in which we operate. Our systems may be unable to satisfy changing regulatory requirements and employee and customer expectations, or may require significant additional investments or time in order to do so. Our information systems and records, including those we maintain with our service providers, may be subject to security breaches, system failures, viruses, operator error or inadvertent releases of data. A significant theft, loss, or fraudulent use of customer, employee, or company data maintained by us or by a service provider may adversely impact our reputation and may result in remedial and other expenses, fines, or litigation. A breach in the security of our information systems or those of our service providers may lead to an interruption in the operation of our systems, resulting in operational inefficiencies and a loss of profits.

### 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 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 SEC. 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 and Other Laws and Regulations

Our business is subject to regulation under a wide variety of laws, regulations and policies in jurisdictions around the world. In response to the recent economic crisis and the recent recession, we anticipate that many of the jurisdictions in which we do business will continue to review tax and other revenue raising laws, regulations and policies, and any resulting changes may impose new restrictions, costs or prohibitions on our current practices and reduce our profits. In particular, governments may revise tax laws, regulations or official interpretations in ways that may have a significant impact on us, including modifications that could reduce the profits that we can effectively realize from our non-U.S. operations, or that may require costly changes to those operations, or the way in which they are structured. For example, most U.S. company effective tax rates reflect the fact that income earned and reinvested outside the United States is generally taxed at local rates, which are often much lower than U.S. tax rates. If changes in tax laws, regulations or interpretations significantly increase the tax rates on non-U.S. income, our effective tax rate may increase and our profits may be reduced. If such increases resulted from our status as a U.S. company, those changes may place us at a disadvantage to our non-U.S. competitors if those competitors remain subject to lower local tax rates.

In addition, 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 restricting the presence of certain substances in electronics products. In addition, many of these laws and regulations make producers of electrical goods responsible for collection, recycling, treatment and disposal of recovered products. As a result, 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.

### Technology Changes in Wireless Control

We currently derive substantial revenue from the sale of wireless remote controls based on IR and RF and other technologies. Other control technologies exist or may be developed that may compete with this technology. 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 within the marketplace. The advantage that we may have compared to our competitors is difficult to measure. In addition, 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, training, developing and retaining highly skilled engineering, managerial, operational, sales and marketing personnel. If our salary and benefits fail to stay competitive it may negatively impact our ability to hire and retain key personnel and we may experience low morale, inefficiency or internal control failures. The inability to recruit, hire, train, develop and retain qualified personnel, or the loss of any key personnel, may make it difficult to meet key objectives, such as timely and effective product introductions and also limit our ability to grow and expand our business.

### Change in Competition and Pricing

Even with having our own factories located in the PRC, we will continue to rely on third-party manufacturers to build a portion of 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 may 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 permanent withdrawal from a product or market, damage to our reputation, increased inventory costs, or product re-engineering 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 subject to specific accounting guidelines that may adversely affect our financial condition, results of operations and cash flow.

### 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 conducting business in Asian and Brazilian markets, 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 expected continued growth in digital TVs, DVRs, 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.

### Delaware Law and Our Governing Corporate Documents Contain, and Our Board of Directors May Implement, Antitakeover Provisions that May Deter Takeover Attempts

Under the Delaware business combination statute, a stockholder holding 15 percent or more of our outstanding voting stock may not acquire us without Board of Director consent for at least three years after the date the stockholder first held 15 percent or more of the voting stock. Our governing corporate documents also, among other things, require super-majority votes in connection with mergers and similar transactions. In addition, our Board of Directors may, without stockholder approval, implement other anti-takeover defenses, such as a stockholder's rights plan.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

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

**ITEM 2. PROPERTIES**

Our global headquarters is located in Santa Ana, California. We utilize the following facilities:

Location	Purpose or Use	Square Feet	Status
Santa Ana, California	Corporate headquarters, engineering, research and development	36,184	Leased, expires October 31, 2022
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, expires October 31, 2013
San Mateo, California	Engineering, research and development	4,785	Leased, expires August 15, 2016
Hong Kong, PRC	Asian headquarters	12,000	Leased, expires on June 30, 2016
Guangzhou, PRC <sup>(1)</sup>	Manufacturing facility	710,203	Land leased, expires June 30, 2044
Yangzhou, PRC <sup>(1)</sup>	Manufacturing facility	1,204,697	Land leased, expires July 31, 2055
Qinzhou, PRC <sup>(1)</sup>	Manufacturing facility under development	980,646	Land leased, expires January 31, 2017
Manaus, Brazil	Manufacturing facility	21,709	Leased, expires September 30, 2014

- (1) Private ownership of land in mainland 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.

Upon expiration of our facilities leases, 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. MINE SAFETY DISCLOSURES**

Not applicable.

## 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 8, 2013 was \$21.32. Our stockholders of record on March 8, 2013 numbered 117. 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.

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

	2012		2011	
	High	Low	High	Low
First Quarter	\$ 20.91	\$ 16.39	\$ 29.85	\$ 25.11
Second Quarter	20.27	11.40	30.00	23.84
Third Quarter	17.90	12.19	25.71	14.20
Fourth Quarter	19.86	14.36	20.00	14.01

**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
10/1/2012 - 10/31/2012	62,536	\$ 18.23	62,536	970,107
11/1/2012 - 11/30/2012	65,183	16.39	65,183	904,924
12/1/2012 - 12/31/2012	35,861	17.36	35,861	869,063
Total during fourth quarter	163,580	\$ 17.31	163,580	869,063

During the year ended December 31, 2012, we repurchased 200,847 shares of our issued and outstanding common stock for \$3.5 million under the ongoing and systematic programs approved by our Board of Directors. 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, 2012, we had 869,063 shares available for repurchase under the Board's authorizations.

**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 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".

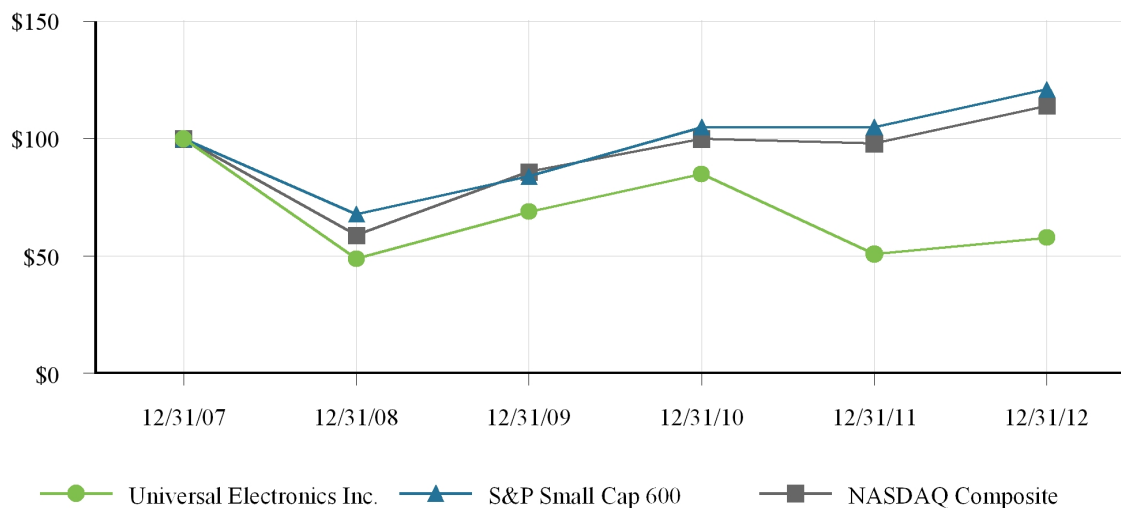
**Performance Chart**

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, 2012. The comparison assumes that \$100 is invested on December 31, 2007 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 Composited Index



	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Universal Electronics Inc.	\$ 100	\$ 49	\$ 69	\$ 85	\$ 51	\$ 58
S&P Small Cap 600	\$ 100	\$ 68	\$ 84	\$ 105	\$ 105	\$ 121
NASDAQ Composite Index	\$ 100	\$ 59	\$ 86	\$ 100	\$ 98	\$ 114

The information presented above is as of December 31, 2007 through 2012. This information should not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") nor should 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.

**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

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 further understand the factors that may affect the comparability of the financial data presented below.

(in thousands, except per share data)	Year Ended December 31,				
	2012	2011	2010	2009	2008
Net sales	\$ 463,090	\$ 468,630	\$ 331,780	\$ 317,550	\$ 287,100
Operating income	\$ 26,202	\$ 26,576	\$ 21,301	\$ 21,947	\$ 20,761
Net income	\$ 16,553	\$ 19,946	\$ 15,081	\$ 14,675	\$ 15,806
Earnings per share:					
Basic	\$ 1.11	\$ 1.34	\$ 1.10	\$ 1.07	\$ 1.13
Diluted	\$ 1.10	\$ 1.31	\$ 1.07	\$ 1.05	\$ 1.09
Shares used in calculating earnings per share:					
Basic	14,952	14,912	13,764	13,667	14,015
Diluted	15,110	15,213	14,106	13,971	14,456
Cash dividend declared per common share	—	—	—	—	—
Gross margin	28.8%	27.8%	31.3%	32.0%	33.5%
Selling, general, administrative, research and development expenses as a % of net sales	23.2%	22.1%	24.9%	25.1%	26.3%
Operating margin	5.6%	5.7%	6.4%	6.9%	7.2%
Net income as a % of net sales	3.6%	4.3%	4.6%	4.6%	5.5%
Return on average assets	4.4%	5.4%	5.0%	6.5%	7.3%

(in thousands, except per share data)	December 31,				
	2012	2011	2010	2009	2008
Working capital	\$ 113,488	\$ 84,761	\$ 66,101	\$ 127,086	\$ 122,303
Ratio of current assets to current liabilities	2.0	1.7	1.4	3.1	3.0
Total assets	\$ 379,324	\$ 369,488	\$ 372,533	\$ 233,307	\$ 217,555
Cash and cash equivalents	\$ 44,593	\$ 29,372	\$ 54,249	\$ 29,016	\$ 75,238
Stockholders' equity	\$ 250,650	\$ 229,989	\$ 211,204	\$ 169,730	\$ 153,353
Book value per share <sup>(1)</sup>	\$ 16.74	\$ 15.55	\$ 14.13	\$ 12.40	\$ 11.24
Ratio of liabilities to liabilities and stockholders' equity	33.9%	37.8%	43.3%	27.3%	29.5%

<sup>(1)</sup> Book value per share is defined as stockholders' equity divided by common shares issued less treasury stock.

The comparability of information for 2012, 2011 and 2010 compared to prior years is affected by the acquisition of Enson 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 remote 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 subscription broadcasters, OEMs, international retailers, private labels, and companies in the computing industry. We also sell integrated circuits, on which our software and IR code database, or library, is embedded, to OEMs that manufacture wireless control devices, cable converters or satellite receivers for resale in their products.

Since our beginning in 1986, we have compiled an extensive IR code library that covers over 713,900 individual device functions and approximately 5,800 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 library contains device codes that are capable of controlling virtually all IR controlled set-top boxes, televisions, audio components, DVD players, and CD players, as well as most other infrared remote controlled home entertainment devices and home automation control modules worldwide.

We operate as one business segment. We have twenty-four subsidiaries located in Argentina, Cayman Islands, France, Germany, Hong Kong (6), India, Italy, the Netherlands, Singapore, Spain, Brazil, British Virgin Islands (3), People's Republic of China (4) and the United Kingdom.

To recap our results for 2012:

- Our net sales decreased 1.2% to \$463.1 million for 2012 from \$468.6 million for 2011.
- Our gross margin percentage improved from 27.8% in 2011 to 28.8% in 2012. This improvement was primarily due to an increase in units produced internally versus units produced by third-party manufacturers in 2012 when compared to 2011. In addition, in the third quarter of 2012, we received a lump-sum payment related to a confidential settlement and license agreement with Logitech. This lump-sum payment was recognized as revenue in the third quarter of 2012 (see "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 13").
- Operating expenses, as a percent of sales, increased from 22.1% in 2011 to 23.2% in 2012 primarily due to an increase in research and development costs in an effort to continue to develop new technologies and products. In addition, legal fees increased as a result of litigation efforts associated with protecting our patented technologies.
- Our 2012 operating income decreased 1.4% to \$26.2 million for 2012 from \$26.6 million for 2011. Our operating margin percentage of 5.6% in 2012 was approximately flat compared to 5.7% in 2011.

Our strategic business objectives for 2013 include the following:

- continue to develop industry-leading technologies and products with attractive gross margins in order to improve profitability;
- continue to increase our market share in new product categories, such as smart devices and game consoles;
- further penetrate the growing Asian and Latin American subscription broadcasting markets;
- acquire new customers in historically strong regions;
- increase our share with existing customers; and
- continue to seek acquisitions or strategic partners that complement and strengthen our existing business.

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, allowances 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 and may have a material impact on our consolidated financial position or results of operations.

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. In addition to the accounting policies mentioned below, see "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 2" for other significant accounting policies.

#### *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 a purchase order from the customer), the sales price is fixed or determinable and collectability is reasonably assured.

We record a provision for estimated 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, 2012 and 2011 was \$1.0 million and \$1.0 million, respectively.

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. 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. 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. We incurred \$0.1 million, \$0.3 million, and \$0.9 million of bad debt expense in 2012, 2011, and 2010, respectively.

We also license our intellectual property including our patented technologies, 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. Revenue for term license fees is recognized on a straight-line basis over the effective term of the license when we cannot reliably predict in which periods, within the term of the license, the licensee will benefit from the use of our patented inventions.

#### *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. 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 wireless remote control device, component part, and raw material inventories are valued at the lower of cost or market value. Cost is determined using the first-in, first-out method. We write-down our inventory for the estimated difference between cost and 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, 2012 and 2011 was \$2.0 million and \$3.4 million, respectively, or 2.3% and 3.7%, respectively, of total inventory. 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 \$0.9 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. The impairment is measured as the difference between the net book value of the asset and the asset's estimated fair value. Fair value is estimated utilizing the assets projected discounted cash flows. In assessing fair value, we must make assumptions regarding estimated future cash flows, the discount rate and other factors.

### *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.

### *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, 2012, we had goodwill of \$30.9 million.

To evaluate whether goodwill is impaired, we conduct a two-step quantitative goodwill impairment test. In the first step 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 perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. 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 equal to the amount by which the carrying value 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 assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

### *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 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 \$5.1 million at December 31, 2012. 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 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*

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 ranges from one to four years.

We determine the fair value of 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 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 determine if there were any discernible 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 Note 16 to the Consolidated Financial Statements for additional disclosure regarding stock-based compensation.

## 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,					
	2012		2011		2010	
Net sales	\$ 463,090	100.0 %	\$ 468,630	100.0 %	\$ 331,780	100.0%
Cost of sales	329,653	71.2	338,569	72.2	227,931	68.7
Gross profit	133,437	28.8	130,061	27.8	103,849	31.3
Research and development expenses	14,152	3.1	12,267	2.6	10,709	3.2
Selling, general and administrative expenses	93,083	20.1	91,218	19.5	71,839	21.7
Operating income	26,202	5.6	26,576	5.7	21,301	6.4
Interest income (expense), net	(151)	—	(270)	(0.1)	34	—
Other income (expense), net	(1,413)	(0.3)	(1,075)	(0.2)	523	0.2
Income before income taxes	24,638	5.3	25,231	5.4	21,858	6.6
Provision for income taxes	8,085	1.7	5,285	1.1	6,777	2.0
Net income	\$ 16,553	3.6 %	\$ 19,946	4.3 %	\$ 15,081	4.6%

The comparability of information for 2012 and 2011 compared to 2010 is affected by the acquisition of Enson during the fourth quarter of 2010. See Note 21 to the Consolidated Financial Statements for further information.

### Year Ended December 31, 2012 ("2012") Compared to Year Ended December 31, 2011 ("2011")

*Net sales.* Net sales for 2012 were \$463.1 million, a decrease of 1.2% compared to \$468.6 million in 2011. Net income for 2012 was \$16.6 million or \$1.10 per diluted share compared to \$19.9 million or \$1.31 per diluted share in 2011.

	2012		2011	
	\$ (millions)	% of total	\$ (millions)	% of total
Net sales:				
Business	\$ 410.9	88.7%	\$ 421.4	89.9%
Consumer	52.2	11.3%	47.2	10.1%
Total net sales	\$ 463.1	100.0%	\$ 468.6	100.0%

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were 89% of net sales in 2012 compared to 90% in 2011. Net sales in our Business lines in 2012 decreased by 2% to \$410.9 million from \$421.4 million in 2011. The prolonged sluggish global economy has had an adverse effect on television sales, which, in turn, directly affects our sales to consumer electronics companies. Partially offsetting the decrease in sales to consumer electronics companies is an increase in net sales within subscription broadcasting. Net sales in subscription broadcasting have remained strong in North America and have grown significantly, on a percentage basis, in Latin America, specifically Brazil.

Net sales in our Consumer lines (*One For All*<sup>®</sup> retail and private label) were 11% of net sales in 2012 compared to 10% in 2011. Net sales in our Consumer lines in 2012 increased by 11% to \$52.2 million from \$47.2 million in 2011. International retail sales increased 10% from \$43.4 million in 2011 to \$47.8 million in 2012 due primarily to increased sales in the U.K. and Latin America. In addition, North American retail sales increased \$1.2 million, from \$3.1 million to \$4.3 million.

*Gross profit.* Gross profit in 2012 was \$133.4 million compared to \$130.1 million in 2011. Gross profit as a percent of sales increased to 28.8% in 2012 from 27.8% in 2011. This improvement is primarily due to an increase in units produced internally versus units produced by third-party manufacturers. Gross profit in 2012 was also positively affected by us entering into a licensing agreement with a customer in the gaming industry, as well as the signing of a long-term, confidential settlement and license agreement with Logitech. Compared to 2011, this favorability was partially offset by pricing pressure from customers.

*Research and development ("R&D") expenses.* R&D expenses increased 15% to \$14.2 million in 2012 from \$12.3 million in 2011. The increase is due to additional labor dedicated to general R&D activities in an effort to continue to develop new products and technologies.

*Selling, general and administrative ("SG&A") expenses.* SG&A expenses increased 2% to \$93.1 million in 2012 from \$91.2 million in 2011. Legal expenses increased by \$1.3 million as a result of litigation costs related to protecting our intellectual property. Employee bonus expense increased by \$3.2 million. Partially offsetting these expense increases was a \$2.5 million favorable currency effect due primarily to the Euro weakening compared to the U.S. dollar.

*Interest income (expense), net.* Net interest expense was \$0.2 million in 2012 compared to \$0.3 million in 2011. The decrease in interest expense was due to lower credit needs during 2012, primarily as a result of positive operating cash flows which allowed for the paydown of debt associated with the 2010 acquisition of Enson.

*Other income (expense), net.* Net other expense was \$1.4 million in 2012 compared to net other expense of \$1.1 million in 2011. This increase was driven by a higher amount of foreign currency losses in 2012, driven by fluctuations in the foreign currency rates relating to the Argentinian Peso, Brazilian Real, Chinese Yuan Renminbi and Euro.

*Income tax expense.* Income tax expense was \$8.1 million in 2012 compared to \$5.3 million in 2011 and our effective tax rate was 32.8% in 2012 compared to 20.9% in 2011. The increase in our effective tax rate was due primarily to a \$3.9 million (\$2.6 million net of federal benefit) valuation allowance that we recorded in 2012 against our deferred tax assets related to California research and experimentation credits. At December 31, 2012, we believed it was more likely than not that these deferred tax assets would not be realized. In addition, as the result of a tax law change in China, approximately \$0.6 million of deferred tax assets were no longer valid resulting in their write-down.

**Year Ended December 31, 2011 Compared to Year Ended December 31, 2010 ("2010")**

*Net sales.* Net sales for 2011 were \$468.6 million, an increase of 41.2% compared to \$331.8 million in 2010. Net income for 2011 was \$19.9 million or \$1.31 per diluted share compared to \$15.1 million or \$1.07 per diluted share in 2010.

	2011		2010	
	\$ (millions)	% of total	\$ (millions)	% of total
Net sales:				
Business	\$ 421.4	89.9%	\$ 282.9	85.3%
Consumer	47.2	10.1%	48.9	14.7%
Total net sales	\$ 468.6	100.0%	\$ 331.8	100.0%

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were 90% of net sales in 2011 compared to 85% in 2010. Net sales in our Business lines in 2011 increased by 49% to \$421.4 million from \$282.9 million in 2010. This increase in net sales resulted primarily from the November 2010 acquisition of Enson, which added several significant customers and contributed \$150.1 million of net sales to the Business category during 2011 compared to \$25.0 million during 2010. Excluding the net sales from Enson, Business category sales increased by \$13.4 million. This was primarily due to the increase of sales to the Latin America subscription broadcasting market and the acquisition of new domestic customers in our business category during 2011.

Net sales in our Consumer lines (*One For All*<sup>®</sup> retail, private label, custom installers, and direct import) were 10% of net sales in 2011 compared to 15% in 2010. Net sales in our Consumer lines in 2011 decreased by 4% to \$47.2 million from \$48.9 million in 2010. Net sales in North American retail decreased by \$1.7 million, or 35%, from \$4.8 million in 2010 to \$3.1 million in 2011. In addition, our custom installer sales decreased by \$2.2 million, from \$2.9 million in 2010 to \$0.7 million in 2011. Partially offsetting these decreases was a \$2.2 million increase in international retail sales, from \$41.2 million in 2010 to \$43.4 million in 2011. The 2011 net sales in our Consumer lines were positively impacted by the strengthening of the Euro and the British Pound compared to the U.S. dollar, which resulted in an increase in net sales of approximately \$1.3 million. Net of the favorable currency effect, international retail sales increased by \$0.8 million due primarily to the analog to digital transition that took place in some European countries.

*Gross profit.* Gross profit in 2011 was \$130.1 million compared to \$103.8 million in 2010. Gross profit as a percent of sales decreased to 27.8% in 2011 from 31.3% in 2010, due primarily to our sales mix, as a higher percentage of our total sales was comprised of our lower margin Business category. This shift in sales composition was expected as a result of our acquisition of Enson, which sells exclusively within the Business category. In addition, during 2011, customers gravitated more towards our lower margin products which put downward pressure on our gross margin percentage.

*Research and development expenses.* R&D expenses increased 15% to \$12.3 million in 2011 from \$10.7 million in 2010. The increase was 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.* SG&A expenses increased 27% to \$91.2 million in 2011 from \$71.8 million in 2010. The strengthening of the Euro compared to the U.S. dollar resulted in an increase of \$1.2 million. Excluding the currency effect, SG&A expenses increased by \$18.2 million, primarily due to an increase of \$17.2 million of operating expenses from Enson, which included an increase of \$2.1 million of intangible asset amortization during 2011. In addition, total wages increased by \$0.9 million and our newly established operating entity in Brazil increased operating expenses by \$1.8 million. Partially offsetting these increases was a reduction in bonus expense of \$1.8 million.

*Interest income (expense), net.* We incurred \$0.3 million of net interest expense in 2011 compared to \$34 thousand of net interest income in 2010. The increase in interest expense was due to drawing on our line of credit during 2011.

*Other income (expense), net.* Net other expense was \$1.1 million in 2011 compared to net other income of \$0.5 million in 2010. The expense in 2011 was driven by foreign currency losses of \$1.1 million whereas we experienced \$0.6 million in foreign currency gains in 2010.

*Income tax expense.* Income tax expense was \$5.3 million in 2011 compared to \$6.8 million in 2010, and our effective tax rate was 20.9% in 2011 compared to 31.0% in 2010. 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 2011 on certain tax positions recorded in the United States, and lower interest expense resulting from fewer uncertain tax positions.

## Liquidity and Capital Resources

### Sources and Uses of Cash

(In thousands)	Year ended December 31, 2012	Increase (Decrease)	Year ended December 31, 2011	Increase (Decrease)	Year ended December 31, 2010
Cash provided by operating activities	\$ 43,543	\$ 28,743	\$ 14,800	\$ (23,339)	\$ 38,139
Cash used for investing activities	(11,603)	3,091	(14,694)	20,149	(34,843)
Cash (used for) provided by financing activities	(17,578)	8,691	(26,269)	(49,544)	23,275
Effect of exchange rate changes on cash	859	(427)	1,286	2,624	(1,338)
			<u>December 31, 2012</u>	<u>Increase (Decrease)</u>	<u>December 31, 2011</u>
Cash and cash equivalents			\$ 44,593	\$ 15,221	\$ 29,372
Working capital			113,488	28,727	84,761

*Net cash provided by operating activities* increased \$28.7 million in 2012 when compared to 2011, driven largely by a \$31.0 million improvement in cash flows associated with inventories. In 2011, there were two items that resulted in a permanent increase to our inventory levels. First, as a result of labor issues we previously experienced resulting from the Chinese New Year, as well as the fact that both of our factories located in China shut down for a week during the Chinese New Year holiday period, we made a conscious effort to increase our inventory levels during the latter half of the year in order to prevent supply issues. Second, in the second quarter of 2011, we altered our shipping terms with a significant customer that resulted in us holding title to inventories until shipments are received by this particular customer. The aforementioned items had an adverse effect on cash flows in 2011; however, for 2012, the higher inventory levels were already in the base year. Working capital changes in 2012 also included a \$12.5 million increase in cash flows related to accounts payable and accrued expenses that was due primarily to payment timing related to fourth quarter inventory purchases and increased incentive compensation accruals, offset by a \$12.1 million decrease in cash flows associated with accounts receivable that was driven primarily by year-end collection timing.

Net cash provided by operating activities in 2011 was \$14.8 million compared to \$38.1 million during 2010. Cash flows decreased by \$25.5 million during 2011 due to increased inventories. In the second quarter of 2011, we altered our shipping terms with a significant customer that results in us holding title to inventories until the shipments are received by this particular customer. We also increased our investment in safety stock on certain products as a result of the timing of the Chinese New Year. In addition, cash inflows related to accounts receivable decreased \$10.1 million, from \$13.2 million in 2010 to \$3.1 million in 2011 due primarily to net sales increasing from \$102.5 million in the fourth quarter of 2010 to \$117.6 million in the fourth quarter 2011. Partially offsetting these decreases to cash flow from operations was an increase to net income of \$4.9

million and an increase in depreciation and amortization of \$9.3 million. The increase in depreciation and amortization was a direct result of the acquisition of Enson Assets Limited.

*Net cash used for investing activities* during 2012 was \$11.6 million compared to \$14.7 million and \$34.8 million of net cash used during 2011 and 2010, respectively. During 2012 and 2011, cash used for investing activities consisted of our investments in property, plant, and equipment as well as internally developed patents. During 2010, our \$49.2 million time deposit investment matured, which was initially entered into during 2009. The cash proceeds from the time deposit were used to purchase Enson during 2010, which amounted to a \$74.3 million cash outflow net of cash acquired. 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.

*Net cash used for financing activities* was \$17.6 million during 2012 compared to net cash used for financing activities of \$26.3 million during 2011 and net cash provided by financing activities of \$23.3 million during 2010. During 2012, we made net debt payments of \$16.4 million compared to \$18.6 million in 2011. In 2010, we issued \$41.0 million of debt in order to fund the acquisition of Enson, of which we repaid \$9.8 million by December 31, 2010. Proceeds from stock option exercises were \$2.2 million during 2012 compared to proceeds of \$1.7 million and \$2.0 million during 2011 and 2010, respectively. In addition, we purchased 200,847 shares of our common stock at a cost of \$3.5 million during 2012, compared to 456,964 and 505,692 shares at a cost of \$9.8 million and \$10.1 million during 2011 and 2010, 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.

From time to time, our Board of Directors authorizes management to repurchase 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, 2012, we had 869,063 shares available for repurchase under the Board's authorizations.

### 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
<b>Contractual obligations:</b>					
Operating lease obligations	\$ 13,210	\$ 2,157	\$ 3,892	\$ 2,858	\$ 4,303
Capital lease obligations	93	20	40	33	—
Purchase obligations <sup>(1)</sup>	77,405	7,705	35,700	34,000	—
<b>Total contractual obligations</b>	<b>\$ 90,708</b>	<b>\$ 9,882</b>	<b>\$ 39,632</b>	<b>\$ 36,891</b>	<b>\$ 4,303</b>

<sup>(1)</sup> Purchase obligations primarily include contractual payments to purchase tooling assets and inventory.

### 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. 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. We believe our current cash balances and anticipated cash flow to be generated from operations will be sufficient to cover cash outlays expected during 2013; however, because our cash is located in various jurisdictions throughout the world, we may at times need to borrow from our revolving line of credit until we are able to transfer cash among our various entities.

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,		
	2012	2011	2010
Cash and cash equivalents	\$ 44,593	\$ 29,372	\$ 54,249
Total debt	—	16,400	35,000
Available borrowing resources	55,000	18,000	33,766

Our cash balances are held in numerous locations throughout the world. 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, 2012, we had \$2.7 million, \$27.3 million, \$9.4 million and \$5.2 million of cash and cash equivalents in the United States, Asia, Europe, and South America, respectively. We attempt to mitigate our exposure to liquidity, credit and other relevant risks by placing our cash and cash equivalents with financial institutions we believe are high quality.

On October 2, 2012, we entered into an Amended and Restated Credit Agreement ("Amended Credit Agreement") with U.S. Bank National Association ("U.S. Bank"). Under the Amended Credit Agreement, the existing secured revolving credit line ("Credit Line") was increased from \$20.0 million to \$55.0 million and the expiration date was extended from November 1, 2012 to November 1, 2014. The Amended Credit Agreement required that the Credit Line be used to pay off the remaining outstanding balance of the existing term loan with U.S. Bank. The Credit Line may be used for working capital and other general corporate purposes including acquisitions, share repurchases and capital expenditures. Amounts available for borrowing under the Credit Line are reduced by the balance of any outstanding letters of credit, of which there were none at December 31, 2012.

All obligations under the Credit Line are secured by substantially all of our U.S. personal property and tangible and intangible assets as well as 65% of our ownership interest in Enson Assets Limited, our wholly-owned subsidiary which controls our manufacturing factories in the PRC.

Under the Amended Credit Agreement, we may elect to pay interest on the Credit Line based on LIBOR plus an applicable margin (varying from 1.25% to 1.75%) or base rate (based on the prime rate of U.S. Bank or as otherwise specified in the Amended Credit Agreement) plus an applicable margin (varying from -0.25% to +0.25%). The applicable margins are calculated quarterly and vary based on our leverage ratio as set forth in the Amended Credit Agreement. There are no commitment fees or unused line fees under the Amended Credit Agreement.

The Amended Credit Agreement includes financial covenants requiring a minimum fixed charge coverage ratio, a maximum leverage ratio and minimum liquidity levels. In addition, the Amended Credit Agreement also contains other customary affirmative and negative covenants and events of default. As of December 31, 2012, we were in compliance with the covenants and conditions of the Amended Credit Agreement.

#### **Off Balance Sheet Arrangements**

We do not participate in any off balance sheet arrangements.

#### **Recent Accounting Pronouncements**

See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 2" for a discussion of recent 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. Although at December 31, 2012, we had no outstanding borrowings under our revolving line of credit, from time to time we need to borrow amounts for working capital and other liquidity needs.



Under the Amended Credit Agreement that became effective on October 2, 2012, we may elect to pay interest on outstanding borrowings on our Credit Line based on LIBOR or a base rate (based on the prime rate of U.S. Bank) plus an applicable margin as defined in the Amended Credit Agreement. A 100 basis point increase in interest rates would have had an insignificant effect on reported net income for the year ended December 31, 2012.

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, 2012 we had wholly owned subsidiaries in Argentina, Brazil, Cayman Islands, France, Germany, Hong Kong, India, Italy, the Netherlands, the PRC, 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 during 2012 were the Euro, British Pound, Chinese Yuan Renminbi, Indian Rupee, Singapore dollar, Argentinian Peso and Brazilian Real. 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 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, 2012, we believe that movements in foreign currency rates may have a material effect on our financial position. We estimate that if the exchange rates for the Euro, British Pound, Chinese Yuan Renminbi, Indian Rupee, Singapore dollar, Argentinian Peso, and the Brazilian Real relative to the U.S. dollar fluctuate 10% from December 31, 2012, net income and total cash flows in the first quarter of 2013 would fluctuate by approximately \$5.7 million and \$4.0 million, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All 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) (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. 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, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the accompanying consolidated financial statements have been retrospectively adjusted for the adoption of Accounting Standards Update (ASU) No. 2011-05, *Presentation of Comprehensive Income*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, 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 14, 2013 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Irvine, California  
March 14, 2013

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

	December 31, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 44,593	\$ 29,372
Accounts receivable, net	91,048	82,184
Inventories, net	84,381	90,904
Prepaid expenses and other current assets	3,661	3,045
Income tax receivable	270	—
Deferred income taxes	5,210	6,558
Total current assets	229,163	212,063
Property, plant, and equipment, net	77,706	80,449
Goodwill	30,890	30,820
Intangible assets, net	29,835	32,814
Other assets	5,361	5,350
Deferred income taxes	6,369	7,992
Total assets	\$ 379,324	\$ 369,488
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 59,831	\$ 55,430
Line of credit	—	2,000
Notes payable	—	14,400
Accrued sales discounts, rebates and royalties	8,093	6,544
Accrued income taxes	3,668	5,707
Accrued compensation	33,398	29,204
Deferred income taxes	41	50
Other accrued expenses	10,644	13,967
Total current liabilities	115,675	127,302
Long-term liabilities:		
Deferred income taxes	10,687	11,056
Income tax payable	525	1,136
Other long-term liabilities	1,787	5
Total liabilities	128,674	139,499
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 5,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.01 par value, 50,000,000 shares authorized; 21,491,398 and 21,142,915 shares issued on December 31, 2012 and 2011, respectively	215	211
Paid-in capital	180,607	173,701
Accumulated other comprehensive income (loss)	1,052	938
Retained earnings	170,569	154,016
	352,443	328,866
Less cost of common stock in treasury, 6,516,382 and 6,353,035 shares on December 31, 2012 and 2011, respectively	(101,793)	(98,877)
Total stockholders' equity	250,650	229,989
Total liabilities and stockholders' equity	\$ 379,324	\$ 369,488

See Note 5 for further information concerning our purchases from a related party vendor.

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,		
	2012	2011	2010
Net sales	\$ 463,090	\$ 468,630	\$ 331,780
Cost of sales	329,653	338,569	227,931
Gross profit	133,437	130,061	103,849
Research and development expenses	14,152	12,267	10,709
Selling, general and administrative expenses	93,083	91,218	71,839
Operating income	26,202	26,576	21,301
Interest income (expense), net	(151)	(270)	34
Other income (expense), net	(1,413)	(1,075)	523
Income before provision for income taxes	24,638	25,231	21,858
Provision for income taxes	8,085	5,285	6,777
Net income	\$ 16,553	\$ 19,946	\$ 15,081
Earnings per share:			
Basic	\$ 1.11	\$ 1.34	\$ 1.10
Diluted	\$ 1.10	\$ 1.31	\$ 1.07
Shares used in computing earnings per share:			
Basic	14,952	14,912	13,764
Diluted	15,110	15,213	14,106

See Note 5 for further information concerning our purchases from a related party vendor.

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

**UNIVERSAL ELECTRONICS INC.**  
**CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS**  
(In thousands)

	Year Ended December 31,		
	2012	2011	2010
Net income	\$ 16,553	\$ 19,946	\$ 15,081
Other comprehensive income (loss):			
Change in foreign currency translation adjustment	114	1,427	(1,952)
Comprehensive income	<u>\$ 16,667</u>	<u>\$ 21,373</u>	<u>\$ 13,129</u>

See Note 5 for further information concerning our purchases from a related party vendor.

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
	Shares	Amount	Shares	Amount				
Balance at December 31, 2009	19,140	\$ 191	(5,450)	\$ (79,826)	\$ 128,913	\$ 1,463	\$ 118,989	\$ 169,730
Net income							15,081	15,081
Currency translation adjustment						(1,952)		(1,952)
Shares issued for employee benefit plan and compensation	156	2			564			566
Shares issued for purchase of Enson	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
Net income							19,946	19,946
Currency translation adjustment						1,427		1,427
Shares issued for employee benefit plan and compensation	164	1			728			729
Purchase of treasury shares			(457)	(9,785)				(9,785)
Stock options exercised	102	1			1,676			1,677
Shares issued to Directors			30	434	(434)			—
Stock-based compensation expense					4,511			4,511
Tax benefit from exercise of non-qualified stock options and vested restricted stock					280			280
Balance at December 31, 2011	21,143	211	(6,353)	(98,877)	173,701	938	154,016	229,989
Net income							16,553	16,553
Currency translation adjustment						114		114
Shares issued for employee benefit plan and compensation	159	2			747			749
Purchase of treasury shares			(201)	(3,451)				(3,451)
Stock options exercised	189	2			2,202			2,204
Shares issued to Directors			38	535	(535)			—
Stock-based compensation expense					4,575			4,575
Tax benefit from exercise of non-qualified stock options and vested restricted stock					(83)			(83)
Balance at December 31, 2012	21,491	\$ 215	(6,516)	\$ (101,793)	\$ 180,607	\$ 1,052	\$ 170,569	\$ 250,650

See Note 5 for further information concerning our purchases from a related party vendor.

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,		
	2012	2011	2010
<b>Cash provided by operating activities:</b>			
Net income	\$ 16,553	\$ 19,946	\$ 15,081
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation and amortization	17,613	17,335	8,059
Provision for doubtful accounts	73	277	931
Provision for inventory write-downs	2,994	5,625	3,514
Deferred income taxes	2,536	(1,043)	(559)
Tax benefit from exercise of stock options and vested restricted stock	(83)	280	231
Excess tax benefit from stock-based compensation	(111)	(439)	(290)
Shares issued for employee benefit plan	749	729	566
Stock-based compensation	4,575	4,511	4,966
<b>Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:</b>			
Accounts receivable	(8,998)	3,142	13,192
Inventories	2,987	(30,597)	(5,102)
Prepaid expenses and other assets	(588)	(345)	950
Accounts payable and accrued expenses	8,186	(4,319)	922
Accrued income and other taxes	(2,943)	(302)	(4,322)
Net cash provided by operating activities	43,543	14,800	38,139
<b>Cash used for investing activities:</b>			
Acquisition of Enson, net of cash acquired	—	—	(74,271)
Term deposit	—	—	49,246
Acquisition of property, plant, and equipment	(10,463)	(13,630)	(8,440)
Acquisition of intangible assets	(1,140)	(1,064)	(1,378)
Net cash used for investing activities	(11,603)	(14,694)	(34,843)
<b>Cash (used for) provided by financing activities:</b>			
Issuance of debt	30,800	4,200	41,000
Payment of debt	(47,200)	(22,800)	(9,834)
Debt issuance costs	(42)	—	—
Proceeds from stock options exercised	2,204	1,677	1,964
Treasury stock purchased	(3,451)	(9,785)	(10,145)
Excess tax benefit from stock-based compensation	111	439	290
Net cash (used for) provided by financing activities	(17,578)	(26,269)	23,275
Effect of exchange rate changes on cash	859	1,286	(1,338)
Net increase (decrease) in cash and cash equivalents	15,221	(24,877)	25,233
Cash and cash equivalents at beginning of year	29,372	54,249	29,016
Cash and cash equivalents at end of year	\$ 44,593	\$ 29,372	\$ 54,249
<b>Supplemental Cash Flow Information:</b>			
Income taxes paid	\$ 10,445	\$ 8,097	\$ 11,747
Interest payments	\$ 304	\$ 438	\$ —

See Note 5 for further information concerning our purchases from a related party vendor.

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. ("UEI"), 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 25 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 ("OEM"), retail, private label, and personal computing companies. We sell directly to our customers, and for retail 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*<sup>®</sup> and *Nevo*<sup>®</sup> 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, allowances 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 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 the sales allowances are distributed in customer account credits. See Note 4 for further information concerning our sales allowances.

**UNIVERSAL ELECTRONICS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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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 credit reviews, 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.

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 recognize revenue for the sale of tooling when the related services have been provided, customer acceptance documentation has been obtained, the sales price is fixed or determinable, and collectability is reasonably assured.

We also license our intellectual property including our patented technologies, 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. Revenue for term license fees is recognized on a straight-line basis over the effective term of the license when 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 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.

Accounting standards prescribe 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 \$1.3 million, \$1.2 million, and \$1.7 million for the years ended December 31, 2012, 2011 and 2010, respectively.

**UNIVERSAL ELECTRONICS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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#### *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 \$9.2 million, \$9.7 million and \$7.5 million for the years ended December 31, 2012, 2011 and 2010, 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 ranges from one to four years.

We determine the fair value of 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 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 determine if there were any discernible 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 Note 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.

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.

#### *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 option and restricted stock awards, 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 we exclude stock options with exercise prices greater than the average market price of the underlying common stock because their inclusion would be anti-dilutive. Furthermore, we exclude shares of restricted stock whose combined unamortized fair value and excess tax benefits are greater than the average market price of the underlying common stock during the period, as their effect would be anti-dilutive.

**UNIVERSAL ELECTRONICS INC.**  
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### *Financial Instruments*

Our financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and debt. The carrying value of our financial instruments approximates 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 and Cash Equivalents*

Cash and cash equivalents include cash accounts and all investments purchased with initial maturities of three months or less. We attempt to mitigate our exposure to liquidity, credit and other relevant risks by placing our cash and cash equivalents 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 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 and cash equivalents.

### *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 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.

### *Property, Plant, and Equipment*

Property, plant, and equipment are recorded at cost. 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 10 years)

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

**UNIVERSAL ELECTRONICS INC.**  
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### *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 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 conduct a two-step quantitative goodwill impairment test. In the first step 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 perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. 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 equal to the amount by which the carrying value of goodwill exceeds its implied fair value.

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.

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 typically established when

**UNIVERSAL ELECTRONICS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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a working prototype 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 of the amounts 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 Argentinian Peso, 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.

#### *Fair-Value Measurements*

We measure fair value using the framework established by the Financial Accounting Standards Board ("FASB") 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 data source. These two types of inputs result in 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.

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*Recent Accounting Pronouncements*

In December 2011, the FASB issued Accounting Standards Update ("ASU") 2011-11, "Disclosures about Offsetting Assets and Liabilities". The amendments in ASU 2011-11 require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. In January 2013, the FASB issued ASU 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities", which limits the scope of ASU 2011-11 to derivatives, repurchase agreements and securities lending transactions. This guidance is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013 with retrospective application required. The adoption of ASU 2011-11, as amended by ASU 2013-02, is expected to result in changes to our presentation and disclosure only and is not expected to have any impact on our consolidated results of operations and financial condition.

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income", which updates ASU 2011-05, "Comprehensive Income". This standard requires the presentation in a single location, either in a note or parenthetically on the face of the financial statements, of the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. This guidance is effective prospectively for annual and interim fiscal periods beginning after December 15, 2012, with early adoption permitted. The adoption of ASU 2013-02 is not expected to have any impact on our consolidated financial statements.

**Note 3 — Cash and Cash Equivalents**

The following table sets forth our cash and cash equivalents that were accounted for at fair value on a recurring basis on December 31, 2012 and 2011:

(In thousands)	December 31, 2012				December 31, 2011			
	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	\$ 44,593	\$ —	\$ —	\$ 44,593	\$ 29,372	\$ —	\$ —	\$ 29,372

Cash and cash equivalents were in the following geographic regions on December 31, 2012 and 2011:

(In thousands)	2012	2011
United States	\$ 2,741	\$ 4,148
Asia	27,317	16,502
Europe	9,361	7,632
Cayman Islands	1	23
South America	5,173	1,067
Total cash and cash equivalents	\$ 44,593	\$ 29,372

**Note 4 — Accounts Receivable, Net and Revenue Concentrations**

Accounts receivable, net consisted of the following on December 31, 2012 and 2011:

(in thousands)	2012	2011
Trade receivables, gross	\$ 90,056	\$ 82,305
Allowance for doubtful accounts	(322)	(1,021)
Allowance for sales returns	(996)	(981)
Net trade receivables	88,738	80,303
Other	2,310	1,881
Accounts receivable, net	\$ 91,048	\$ 82,184

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*Allowance for Doubtful Accounts*

The following changes occurred in the allowance for doubtful accounts during the years ended December 31, 2012, 2011, and 2010:

(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, 2012	\$ 1,021	\$ 73	\$ (772)	\$ 322
Year ended December 31, 2011	\$ 878	\$ 277	\$ (134)	\$ 1,021
Year ended December 31, 2010	\$ 2,423	\$ 931	\$ (2,476)	\$ 878

*Sales Returns*

The allowance for sales returns at December 31, 2012 and 2011 included reserves for items returned prior to year-end 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 \$0.6 million and \$0.7 million on December 31, 2012 and 2011, respectively. The value of these returned goods was included in our inventory balance at December 31, 2012 and 2011.

*Significant Customers*

During the years ended December 31, 2012, 2011 and 2010, we had net sales to the following significant customers that totaled more than 10% of our net sales:

	Year Ended December 31,					
	2012		2011		2010	
	\$ (thousands)	% of Net Sales	\$ (thousands)	% of Net Sales	\$ (thousands)	% of Net Sales
DIRECTV	\$ 78,325	16.9%	\$ 57,371	12.2%	\$ 45,367	13.7%
Sony	—	—	\$ 48,483	10.3%	—	—
Comcast	—	—	—	—	\$ 42,716	12.9%

Trade receivables associated with the significant customer activity disclosed above were as follows on December 31, 2012 and 2011:

	December 31, 2012		December 31, 2011	
	\$ (thousands)	% of Accounts receivable, net	\$ (thousands)	% of Accounts Receivable, net
DIRECTV	\$ 9,277	10.2%	\$ 7,599	9.2%
Sony	—	—	\$ 7,064	8.6%
Comcast	—	—	—	—

The loss of any 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.



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**Note 5 — Inventories, Net and Significant Suppliers**

Inventories, net consisted of the following on December 31, 2012 and 2011:

(in thousands)	2012	2011
Raw materials	\$ 17,438	\$ 17,014
Components	20,978	21,819
Work in process	1,050	1,071
Finished goods	46,939	54,447
Reserve for excess and obsolete inventory	(2,024)	(3,447)
Inventories, net	\$ 84,381	\$ 90,904

*Reserve for Excess and Obsolete Inventory*

Changes in the reserve for excess and obsolete inventory during the years ended December 31, 2012, 2011 and 2010 were composed of the following:

(In thousands) Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses(1)	Sell Through(2)	Write-offs/FX Effects	Balance at End of Period
<b>Reserve for excess and obsolete inventory:</b>					
Year ended December 31, 2012	\$ 3,447	\$ 2,511	\$ (1,166)	\$ (2,768)	\$ 2,024
Year ended December 31, 2011	\$ 2,135	\$ 4,568	\$ (1,295)	\$ (1,961)	\$ 3,447
Year ended December 31, 2010	\$ 1,750	\$ 2,887	\$ (1,043)	\$ (1,459)	\$ 2,135

- (1) The additions charged to costs and expenses do not include inventory directly written-off that was scrapped during production totaling \$0.5 million, \$1.0 million, and \$0.6 million for the years ended December 31, 2012, 2011, and 2010. These amounts are production waste and are not included in management's reserve for excess and obsolete inventory.
- (2) This column represents the reversal of reserves associated with inventory items that were sold during the period. Sell through is the result of differences between our judgment concerning the saleability of inventory items during the excess and obsolete inventory review process and our subsequent experience.

*Significant Suppliers*

We purchase integrated circuits, components and finished goods from multiple sources. We had purchases from the following significant suppliers that totaled more than 10% of our total inventory purchases for each of the years ended December 31, 2012, 2011, and 2010 as follows:

	Year Ended December 31,					
	2012		2011		2010	
	\$ (thousands)	% of Total Inventory Purchases	\$ (thousands)	% of Total Inventory Purchases	\$ (thousands)	% of Total Inventory Purchases
Samsung	—	—	\$ 29,124	10.2%	\$ 30,047	15.3%
Computime	—	—	—	—	\$ 36,966	18.9%

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Accounts payable associated with the significant supplier activity disclosed above was as follows on December 31, 2012 and 2011:

	December 31, 2012		December 31, 2011	
	\$ (thousands)	% of Accounts Payable	\$ (thousands)	% of Accounts Payable
Samsung	—	—	\$ 1,725	3.1%
Computime	—	—	—	—

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 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.

*Related Party Vendor*

We purchase certain printed circuit board assemblies from a related party vendor. The vendor is considered a related party for financial reporting purposes because the Senior Vice President of Manufacturing of Enson Assets Limited ("Enson") owns 40% of this vendor. During the years ended December 31, 2012, 2011 and 2010 the amounts purchased from this vendor were the following:

	Year Ended December 31,					
	2012		2011		2010	
	\$ (thousands)	% of Total Inventory Purchases	\$ (thousands)	% of Total Inventory Purchases	\$ (thousands)	% of Total Inventory Purchases
Related party vendor	\$ 8,845	3.8%	\$ 8,677	3.0%	\$ 1,340	0.7%

The total accounts payable to this vendor on December 31, 2012 and 2011, respectively were the following:

	December 31, 2012		December 31, 2011	
	\$ (thousands)	% of Accounts Payable	\$ (thousands)	% of Accounts Payable
Related party vendor	\$ 1,815	3.0%	\$ 1,922	3.5%

Our payable terms and pricing with this vendor are consistent with the terms offered by other vendors in the ordinary course of business. The accounting policies that we apply to our transactions with our related party vendor are consistent with those applied in transactions with independent third parties. Corporate management routinely monitors purchases from our related party vendor to ensure these purchases remain consistent with our business objectives.

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**Note 6 — Property, Plant, and Equipment, Net**

Property, plant, and equipment, net consisted of the following at December 31, 2012 and 2011:

(in thousands)	2012	2011
Buildings	\$ 44,607	\$ 42,904
Tooling	24,496	23,320
Computer equipment	2,630	2,741
Software	7,373	7,149
Furniture and fixtures	5,360	4,757
Leasehold improvements	16,153	15,611
Machinery and equipment	44,168	41,206
	<u>144,787</u>	<u>137,688</u>
Accumulated depreciation	(74,766)	(66,291)
	<u>70,021</u>	<u>71,397</u>
Construction in progress	7,685	9,052
Total property, plant, and equipment, net	<u>\$ 77,706</u>	<u>\$ 80,449</u>

Depreciation expense, including tooling depreciation which is recorded in cost of goods sold, was \$13.4 million, \$13.1 million and \$5.9 million for the years ended December 31, 2012, 2011, and 2010, respectively.

The net book value of property, plant, and equipment located within the People's Republic of China was \$69.2 million and \$73.7 million on December 31, 2012 and 2011, respectively.

Construction in progress consisted of the following at December 31, 2012 and 2011:

(in thousands)	2012	2011
Buildings	\$ 5,639	\$ 6,372
Tooling	395	366
Software	742	410
Leasehold improvements	285	482
Machinery and equipment	594	1,350
Other	30	72
Total construction in progress	<u>\$ 7,685</u>	<u>\$ 9,052</u>

The buildings under construction are additional facilities being built in China, which are expected to be placed into service in 2014 (see Note 12 for further discussion). We expect that the remaining construction in progress costs will be placed into service during the first and second quarters of 2013. We will begin to depreciate these assets once the assets are placed into service.

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

Goodwill on December 31, 2012 and changes in the carrying amount of goodwill during the two years ended December 31, 2012 were the following:

(in thousands)	
Balance at December 31, 2010	\$ 30,877
Goodwill acquired during the period	—
Goodwill adjustments <sup>(1)</sup>	(57)
Balance at December 31, 2011	\$ 30,820
Goodwill acquired during the period	—
Goodwill adjustments <sup>(1)</sup>	70
Balance at December 31, 2012	<u>\$ 30,890</u>

<sup>(1)</sup> Adjustments were the result of fluctuations in the foreign currency exchange rate used to translate balances into U.S. dollars.

We conducted annual goodwill impairment reviews on December 31, 2012, 2011, and 2010 utilizing significant unobservable inputs (level 3). Based on the analysis performed, we determined that our goodwill was not impaired.

*Intangible Assets, Net*

The components of intangible assets, net at December 31, 2012 and 2011 are listed below:

(in thousands)	2012			2011		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Carrying amount <sup>(1)</sup> :						
Distribution rights (10 years)	\$ 378	\$ (50)	\$ 328	\$ 372	\$ (50)	\$ 322
Patents (10 years)	8,113	(3,847)	4,266	9,488	(5,306)	4,182
Trademark and trade names (10 years) <sup>(2)</sup>	2,841	(1,127)	1,714	2,837	(821)	2,016
Developed and core technology (5 -15 years)	3,507	(906)	2,601	3,500	(671)	2,829
Capitalized software development costs (1-2 years)	1,276	(913)	363	1,515	(1,108)	407
Customer relationships (10-15 years) <sup>(3)</sup>	26,415	(5,852)	20,563	26,367	(3,309)	23,058
Total carrying amount	<u>\$ 42,530</u>	<u>\$ (12,695)</u>	<u>\$ 29,835</u>	<u>\$ 44,079</u>	<u>\$ (11,265)</u>	<u>\$ 32,814</u>

<sup>(1)</sup> This table excludes the gross value of fully amortized intangible assets totaling \$9.1 million and \$8.1 million on December 31, 2012 and 2011, respectively.

<sup>(2)</sup> As part of our acquisition of Enson 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.

<sup>(3)</sup> During the fourth quarter of 2010 as part of the Enson 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.

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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, 2012, 2011 and 2010 was as follows:

(in thousands)	Year Ended December 31,		
	2012	2011	2010
Cost of sales	\$ 312	\$ 451	\$ 492
Selling, general and administrative	3,862	3,795	1,686
<b>Total amortization expense</b>	<b>\$ 4,174</b>	<b>\$ 4,246</b>	<b>\$ 2,178</b>

Estimated future amortization expense related to our intangible assets at December 31, 2012, is as follows:

(in thousands)	
2013	\$ 4,147
2014	4,014
2015	3,825
2016	3,788
2017	3,774
Thereafter	10,287
	<b>\$ 29,835</b>

The remaining weighted average amortization period of our intangible assets is 7.9 years.

*Intangibles Measured at Fair Value on a Nonrecurring Basis*

We recorded immaterial impairment charges related to our intangible assets for the years ended December 31, 2012, 2011, and 2010. 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. Quoted prices for identical or similar patents, trademarks and trade names are unavailable. The fair value of intangible assets is based upon management's judgment. Management believes that the net book value represents the fair value of our patents, trademarks and trade names. The intangible assets measured at fair value on a nonrecurring basis during the years ended December 31, 2012 and 2011 were the following:

(In thousands)	December 31, 2012				December 31, 2011			
	Fair Value Measurement Using			Total Balance	Fair Value Measurement Using			Total Balance
	(Level 1)	(Level 2)	(Level 3)		(Level 1)	(Level 2)	(Level 3)	
<b>Description</b>								
Patents, trademarks and trade names	\$ —	\$ —	\$ 5,980	\$ 5,980	\$ —	\$ —	\$ 6,198	\$ 6,198

We disposed of fifteen patents and two trademarks with an immaterial aggregate carrying amount during 2012. We disposed of five patents and sixteen trademarks with an immaterial aggregate carrying amount during 2011. We disposed of thirteen patents and eight trademarks with an immaterial carrying amount during 2010. These assets no longer held any probable future economic benefits and were written-off.

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**Note 8 — Line of Credit and Notes Payable**

Line of credit and notes payable on December 31, 2012 and 2011 were comprised of the following:

(In thousands)	Amount Outstanding	
	2012	2011
U.S. Bank Revolving Credit Line	\$ —	\$ 2,000
U.S. Bank Term Loan	—	14,400
Total debt	\$ —	\$ 16,400

Our total interest expense on borrowings was \$0.2 million, \$0.4 million and \$0.1 million during the years ended December 31, 2012, 2011 and 2010, respectively.

On October 2, 2012, we entered into an Amended and Restated Credit Agreement ("Amended Credit Agreement") with U.S. Bank National Association ("U.S. Bank"). Under the Amended Credit Agreement, the existing secured revolving credit line ("Credit Line") was increased from \$20.0 million to \$55.0 million and the expiration date was extended from November 1, 2012 to November 1, 2014. The Amended Credit Agreement required that the Credit Line be used to pay off the remaining outstanding balance of the existing term loan with U.S. Bank. The Credit Line may be used for working capital and other general corporate purposes including acquisitions, share repurchases and capital expenditures. Amounts available for borrowing under the Credit Line are reduced by the balance of any outstanding letters of credit, of which there were none at December 31, 2012.

All obligations under the Credit Line are secured by substantially all of our U.S. personal property and tangible and intangible assets as well as 65% of our ownership interest in Enson, our wholly-owned subsidiary which controls our manufacturing factories in the People's Republic of China ("PRC").

Under the Amended Credit Agreement, we may elect to pay interest on the Credit Line based on LIBOR plus an applicable margin (varying from 1.25% to 1.75%) or base rate (based on the prime rate of U.S. Bank or as otherwise specified in the Amended Credit Agreement) plus an applicable margin (varying from -0.25% to +0.25%). The applicable margins are calculated quarterly and vary based on our leverage ratio as set forth in the Amended Credit Agreement. There are no commitment fees or unused line fees under the Amended Credit Agreement.

The Amended Credit Agreement includes financial covenants requiring a minimum fixed charge coverage ratio, a maximum leverage ratio and minimum liquidity levels. In addition, the Amended Credit Agreement also contains other customary affirmative and negative covenants and events of default. As of December 31, 2012, we were in compliance with the covenants and conditions of the Amended Credit Agreement.

**Note 9 — Income Taxes**

During 2012, 2011, and 2010, pre-tax income was attributed to the following jurisdictions:

(in thousands)	Year Ended December 31,		
	2012	2011	2010
Domestic operations	\$ (2,203)	\$ 3,279	\$ 10,878
Foreign operations	26,841	21,952	10,980
Total	\$ 24,638	\$ 25,231	\$ 21,858

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The provision for income taxes charged to operations for the years ended December 31, 2012, 2011 and 2010 were the following:

(in thousands)	Year Ended December 31,		
	2012	2011	2010
<b>Current tax expense:</b>			
U.S. federal	\$ (891)	\$ 1,319	\$ 3,814
State and local	(75)	12	391
Foreign	6,464	5,122	3,483
Total current	<u>5,498</u>	<u>6,453</u>	<u>7,688</u>
<b>Deferred tax (benefit) expense:</b>			
U.S. federal	(882)	153	(40)
State and local	3,630	(409)	(294)
Foreign	(161)	(912)	(577)
Total deferred	<u>2,587</u>	<u>(1,168)</u>	<u>(911)</u>
Total provision for income taxes	<u>\$ 8,085</u>	<u>\$ 5,285</u>	<u>\$ 6,777</u>

Net deferred tax assets were comprised of the following on December 31, 2012 and 2011:

(in thousands)	2012	2011
	<b>Deferred tax assets:</b>	
Inventory reserves	\$ 1,017	\$ 1,011
Allowance for doubtful accounts	—	205
Capitalized research costs	106	178
Capitalized inventory costs	760	1,206
Net operating losses	1,339	1,525
Acquired intangible assets	10	—
Accrued liabilities	3,785	3,243
Income tax credits	4,321	2,335
Stock-based compensation	3,525	3,326
Other	—	176
Total deferred tax assets	<u>14,863</u>	<u>13,205</u>
<b>Deferred tax liability:</b>		
Depreciation	(5,132)	(4,883)
Allowance for doubtful accounts	(41)	—
Amortization of intangible assets	(2,858)	(3,190)
Acquired intangible assets	—	(30)
Other	(1,922)	(1,522)
Total deferred tax liabilities	<u>(9,953)</u>	<u>(9,625)</u>
Net deferred tax assets before valuation allowance	4,910	3,580
Less: Valuation allowance	(4,059)	(136)
Net deferred tax assets	<u>\$ 851</u>	<u>\$ 3,444</u>

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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,		
	2012	2011	2010
Tax provision at statutory U.S. rate	\$ 8,377	\$ 8,578	\$ 7,650
Increase (decrease) in tax provision resulting from:			
State and local taxes, net	(246)	(262)	63
Foreign tax rate differential	(3,488)	(3,528)	(484)
Nondeductible items	388	407	231
Federal research and development credits	(369)	(503)	(723)
Change in deductibility of social insurance	617	—	—
Settlements	—	—	(110)
Valuation allowance	2,592	—	—
Other	214	593	150
Tax provision	\$ 8,085	\$ 5,285	\$ 6,777

At December 31, 2012, we had state Research and Experimentation ("R&E") income tax credit carry forwards of approximately \$5.3 million. The state R&E income tax credits do not have an expiration date.

At December 31, 2012, we had federal, state and foreign net operating losses of approximately \$2.9 million, \$5.6 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.

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 2012 and thereafter. California has reinstated the utilization of net operating losses for 2012 and 2013.

At December 31, 2012, we assessed the realizability of our deferred tax assets by considering whether it is "more likely than not" some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We considered taxable income in carry-back years, the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. As a result of recent tax law changes in the state of California, we determined that it was "more likely than not" that our deferred tax assets relating to California Research and Experimentation ("R&E") income tax credits would not be realized. Accordingly, a valuation allowance of \$3.9 million (\$2.6 million net of federal benefit) was recorded as of December 31, 2012 relating to the California R&E deferred tax assets. When recognized, the tax benefits to any reversal of this valuation allowance will be recorded as a reduction of income tax expense. Additionally, we recorded \$0.1 million and \$0.1 million of various federal, state, and foreign valuation allowances at December 31, 2012 and 2011, respectively.

During 2012, China's State Administration of Taxation ("SAT") issued Circular 15 which required us to reevaluate our foreign deferred tax assets relating to our Chinese subsidiaries. These subsidiaries have recorded a deferred tax asset for social insurance and housing funds with the intent of being able to deduct these expenses once such liabilities have been settled. Circular 15 stipulates that payments into the aforementioned funds must be made within five years of recording the initial accrual or the tax deduction for these expenses will be forfeited. At December 31, 2012, we evaluated fund payments made prior to the preceding five years and determined that \$0.6 million of our foreign deferred tax assets would not provide a future tax benefit due to the change in Chinese law. In adhering to the new law, we recorded an increase to income tax expense of \$0.6 million in 2012 relating to a decrease in the deferred tax assets of our Chinese subsidiaries.

During the year ended December 31, 2012, we recognized a reduction to paid-in capital and an increase to income taxes payable of \$0.1 million related to the tax benefit from the exercises of non-qualified stock options and vesting of restricted



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stock under our stock-based incentive plans. During the years ended December 31, 2011 and 2010 we recognized an increase to paid-in capital and a reduction to income taxes payable of \$0.3 million and \$0.2 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.

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, 2012 and 2011, we had unrecognized tax benefits of approximately \$5.1 million and \$5.6 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 \$0.1 million, \$0.2 million, and \$0.2 million for the years ended December 31, 2012, 2011 and 2010, respectively. Interest and penalties are included in the unrecognized tax benefits.

Our gross unrecognized tax benefits at December 31, 2012, 2011 and 2010, and the changes during those years then ended, are the following:

(in thousands)	2012	2011	2010
Beginning balance	\$ 5,387	\$ 5,411	\$ 2,580
Additions as a result of tax provisions taken during the current year	261	138	159
Subtractions as a result of tax provisions taken during the prior year	(346)	(67)	(123)
Foreign currency translation	—	133	174
Lapse in statute of limitations	(296)	(224)	(317)
Settlements	—	(15)	(99)
Acquisition	—	11	3,037
Ending balance	<u>\$ 5,006</u>	<u>\$ 5,387</u>	<u>\$ 5,411</u>

Approximately \$4.7 million and \$5.0 million of the total amount of gross unrecognized tax benefits at December 31, 2012 and 2011, respectively, would affect the annual effective tax rate, if recognized. Current year additions to the unrecognized tax benefit relate to liabilities recorded on the books of the Enson entities. The total liability recorded related to Enson is \$3.2 million. 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 \$0.1 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, 2012 the open statutes of limitations for our significant tax jurisdictions are the following: federal and state are 2006 through 2012 and non-U.S. are 2002 through 2010. At December 31, 2012, of our gross unrecognized tax benefits of \$5.1 million, which included \$0.1 million of interest, \$3.2 million are classified as current and \$1.9 million are classified as long term.

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**Note 10 — Accrued Compensation**

The components of accrued compensation on December 31, 2012 and 2011 are listed below:

(in thousands)	2012	2011
Accrued social insurance <sup>(1)</sup>	\$ 19,842	\$ 20,027
Accrued salary/wages	4,862	4,084
Accrued vacation/holiday	2,048	1,943
Accrued bonus <sup>(2)</sup>	4,181	1,140
Accrued commission	478	461
Accrued medical insurance claims	643	300
Other accrued compensation	1,344	1,249
Total accrued compensation	<u>\$ 33,398</u>	<u>\$ 29,204</u>

<sup>(1)</sup> Effective January 1, 2008, the Chinese Labor Contract Law was enacted in the 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, 2012 and 2011.

<sup>(2)</sup> Accrued bonus includes an accrual for an extra month of salary ("13<sup>th</sup> month salary") to be paid to employees in certain geographies where it is the customary business practice. This 13<sup>th</sup> month salary is paid to these employees if they remain employed with us through December 31st. The total accrued for the 13<sup>th</sup> month salary was \$0.5 million and \$0.4 million at December 31, 2012 and 2011, respectively.

**Note 11 — Other Accrued Expenses**

The components of other accrued expenses on December 31, 2012 and 2011 are listed below:

(In thousands)	2012	2011
Advertising and marketing	\$ 501	415
Amount due to CG International Holdings Limited <sup>(1)</sup>	—	5,138
Duties	584	667
Freight	1,666	2,220
Professional fees	1,234	992
Sales taxes and VAT	1,979	710
Tooling <sup>(2)</sup>	221	459
Third-party commissions	337	401
Utilities	316	327
Other	3,806	2,638
Total other accrued expenses	<u>\$ 10,644</u>	<u>13,967</u>

<sup>(1)</sup> The amount due to CG International Holdings Limited was related to the \$5.0 million hold-back that was originally recorded as of the Enson acquisition date. See Note 21 for further information regarding our acquisition of Enson.

<sup>(2)</sup> The tooling accrual balance relates to unearned revenue for tooling that will be sold to customers.

**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.

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Rent expense for our operating leases was \$3.7 million, \$3.2 million and \$2.5 million for the years ended December 31, 2012, 2011 and 2010, respectively.

The following table summarizes future minimum non-cancelable operating lease payments at December 31, 2012:

(in thousands)	<u>Amount</u>
Year ending December 31:	
2013	\$ 2,157
2014	2,120
2015	1,772
2016	1,589
2017	1,269
Thereafter	4,303
Total operating lease commitments	<u>\$ 13,210</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 60 months to 125 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 \$0.5 million and \$30 thousand at December 31, 2012 and 2011, respectively.

The lease agreement for our corporate headquarters contains an allowance for moving expenses and tenant improvements of \$1.5 million, which was partially paid to us upon completion of the move and renovation in December 2012. The remaining \$0.2 million due to us is included in accounts receivable, net at December 31, 2012. These moving and tenant improvement allowances are recorded within other accrued expenses and other long term liabilities, depending on the short term or long term nature, and are being amortized as a reduction of rent expense over the 125-month term of the lease, which began on May 15, 2012.

#### *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 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 operates two factories within the PRC on which the land is leased from the government as of December 31, 2012. 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 these 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.

The first factory is located in the city of Guangzhou in the Guangdong province. The remaining net book value of this prepaid lease was \$1.5 million on December 31, 2012, and will be amortized on a straight-line basis over approximately 23 years. The buildings located on this land have a net book value of \$14.4 million on December 31, 2012 and are being amortized over an estimated remaining life of approximately 19 years.

The second factory is located in the city of Yangzhou in the Jiangsu province. The remaining net book value of this prepaid lease was \$3.0 million on December 31, 2012, and will be amortized on a straight-line basis over the remaining term of approximately 46 years. The buildings located on this land have a net book value of \$18.8 million on December 31, 2012 and are being amortized over an estimated remaining life of 25 years. In addition, the facility under construction located on this land has a net book value of \$5.6 million on December 31, 2012 and will be amortized over an estimated remaining life of 25 years upon completion. We estimate the majority of this construction-in-process will be placed into service during 2014.

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**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 our 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	Settlements (in Cash or in Kind) During the Period	Balance at End of Period
Year ended December 31, 2012	\$ 6	\$ 398	\$ —	\$ 404
Year ended December 31, 2011	\$ 71	\$ (27)	\$ (38)	\$ 6
Year ended December 31, 2010	\$ 82	\$ 4	\$ (15)	\$ 71

*Litigation*

On July 15, 2011, we filed a lawsuit against Logitech, Inc., Logitech International S.A. and Logitech Europe S.A. in the United States District Court, Central District of California (Universal Electronics Inc. v. Logitech, Inc., Logitech International S.A. and Logitech Europe S.A., SACV 11-1056-JVS(ANx)) alleging that the Logitech companies were infringing seventeen of our patents related to remote control technology. We alleged that this complaint related to multiple Logitech remote control products and were seeking monetary relief for the infringement, including enhanced damages due to the willfulness of the Logitech companies' actions, injunctive relief to enjoin the Logitech companies from further infringing, including contributory infringement and/or inducing infringement, and attorney's fees. In its answer, filed on November 3, 2011, the Logitech companies generally denied all of our allegations of infringement and counterclaimed that we were infringing five of their patents. On November 24, 2011, we answered the Logitech companies' counterclaims, generally denying all of their allegations of infringement. On September 26, 2012, the Logitech companies and the Company entered into a long-term, confidential Settlement and License Agreement with an effective date of July 1, 2012 (the "Agreement"). During the term of the Agreement, the Logitech companies and the Company dismissed all lawsuits and, among other things, the Logitech companies will pay royalties to the Company to license the technologies covered by our patents in this suit. Additionally, the Logitech companies agreed to pay the Company \$2.0 million for past royalties for the period covering July 1, 2010 through June 30, 2012. Due to the historical and ongoing relationship with the Logitech companies, this amount is included in net sales for the year ended December 31, 2012.

On March 2, 2012, we filed a lawsuit against Universal Remote Control, Inc. ("URC") in the United States District Court, Central District of California (Universal Electronics Inc. v. Universal Remote Control, Inc., SACV12-0039 AG (JPRx)) alleging that URC is infringing, directly and indirectly, four of our patents related to remote control technology. We have alleged that this complaint relates to multiple URC remote control products, including the URC model numbers UR5U-9000L, WR7 and other remote controls with different model names or numbers, but with substantially the same designs, features, and functionalities. We are seeking monetary relief for the infringement, including enhanced damages due to the willfulness of

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URC's actions, injunctive relief to enjoin URC from further infringing, including contributory infringement and/or inducing infringement, and attorney's fees. URC has denied infringing our patents. On January 29, 2013, the Court held its "Markman" hearing and on February 1, 2013, the Court issued its ruling that four of the 24 claims we have asserted against URC were invalid, effectively removing one of the four patents alleged by us to be infringed by URC from this litigation. We are presently determining whether or not to appeal this decision, but in our estimation this ruling does not materially affect our position in this litigation. In all other respects, this litigation is continuing as scheduled with discovery continuing.

There are no other material pending legal proceedings to which we or any of our subsidiaries is a party or of which our respective property is the subject. However, as is typical in our industry and to 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 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. However, no assurances can be made as to the outcome of any of these matters, nor can we estimate the range of potential losses to us. In our opinion, final judgments, if any, which might be rendered against us in potential or pending litigation would not have a material adverse effect on our financial condition, results of operations, or cash flows. Moreover, we believe that our products do not infringe any third parties' patents or other intellectual property rights.

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

#### *Long-Term Incentive Programs*

During the first quarter of 2009 our Compensation Committee awarded a discretionary cash bonus of \$1.0 million to certain senior executive officers, 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. Each participant's earned award vested in eight equal quarterly installments beginning March 31, 2009 and ending December 31, 2010. Approximately \$0.5 million was paid and expensed during the year ended December 31, 2010.

During the third quarter of 2012, our Compensation Committee awarded a discretionary cash bonus of \$1.1 million to certain employees to be paid out annually in 2013, 2014, and 2015. Each participant's award vests in three equal annual installments beginning August 2, 2012 and ending August 2, 2015. Approximately \$0.2 million was expensed during the year ended December 31, 2012.

#### *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. 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, 2012, 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, 2012 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, 2012, approximately 40 percent of our India subsidiary employees had qualified for eligibility. An individual must be employed by our India subsidiary for a minimum of 5 years before becoming eligible. Upon the termination, resignation or retirement of an eligible employee, we are liable to pay the employee an amount equal to 15 days salary for each full year of service completed. The total amount of liability outstanding at December 31, 2012 and 2011 for the India Plan is not material. During the years ended December 31, 2012, 2011, and 2010, the net periodic benefit costs were also not material.

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**Note 14 — Treasury Stock**

We repurchased shares of our common stock during the years ended December 31, 2012, 2011, and 2010 as follows:

(In thousands)	2012	2011	2010
Shares repurchased	201	457	506
Cost of shares repurchased	\$ 3,451	\$ 9,785	\$ 10,145

Repurchased shares are recorded as shares held in treasury at cost. We 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, 2012, 2011, and 2010, we issued 37,500, 30,000, and 29,583 shares from treasury, respectively, to outside directors for services performed (see Note 16). The shares are issued from treasury stock using a first-in-first-out cost basis, which amounted to \$0.5 million, \$0.4 million, and \$0.4 million in 2012, 2011 and 2010, respectively. 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.

From time to time, our Board of Directors authorizes management to repurchase 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, 2012, we had 869,063 shares available for repurchase under the Board's authorizations.

**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. 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 only have a single operating and reportable segment.

*Foreign Operations*

Our net sales to external customers by geographic area for the years ended December 31, 2012, 2011, and 2010 were the following:

(in thousands)	2012	2011	2010
Net sales:			
United States	\$ 165,209	\$ 137,799	\$ 119,284
People's Republic of China	76,873	106,597	34,136
Europe	61,617	56,448	76,907
Asia (excluding PRC)	108,979	121,089	67,711
Latin America	28,677	17,585	10,569
Other	21,735	29,112	23,173
Total net sales	\$ 463,090	\$ 468,630	\$ 331,780

Specific identification of the customer billing location was the basis used for attributing revenues from external customers to geographic areas.

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Long-lived asset information on December 31, 2012 and 2011 were the following:

	2012	2011
<b>Long-lived tangible assets:</b>		
United States	\$ 5,541	\$ 3,530
People's Republic of China	73,804	78,466
All other countries	3,722	3,803
<b>Total</b>	<b>\$ 83,067</b>	<b>\$ 85,799</b>

**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 and the related income tax benefit for the years ended December 31, 2012, 2011, and 2010 are the following:

(in thousands)	2012	2011	2010
Cost of sales	\$ —	\$ 15	\$ 55
Research and development	223	267	452
<b>Selling, general and administrative:</b>			
Employees	3,733	3,499	3,571
Outside directors	619	730	888
<b>Total stock-based compensation expense</b>	<b>\$ 4,575</b>	<b>\$ 4,511</b>	<b>\$ 4,966</b>
Income tax benefit	\$ 1,488	\$ 1,505	\$ 1,714

**Stock Options**

During the year ended December 31, 2012, the Compensation Committee and Board of Directors awarded stock options to our employees as follows:

(in thousands, except share amounts)

Stock Option Grant Date	Number of Shares Underlying Options	Grant Date Fair Value	Vesting Period
February 8, 2012	148,200	\$ 1,430	3 -Year Vesting Period (8.33% each quarter)
August 6, 2012	5,000	36	4 -Year Vesting Period (25% each year)
	<b>153,200</b>	<b>\$ 1,466</b>	

During the year ended December 31, 2012, we recognized \$0.4 million of pre-tax stock-based compensation expense related to our 2012 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:

	Year Ended December 31,		
	2012	2011	2010
Weighted average fair value of grants <sup>(1)</sup>	\$ 9.57	\$ 13.74	\$ 10.83
Risk-free interest rate	0.86%	2.29%	2.27%
Expected volatility	55.22%	52.25%	50.07%
Expected life in years	5.15	5.03	4.95

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

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We recognize compensation expense related to stock option awards net of estimated forfeitures over the service period of the award, which is the option vesting term of three to four years. The estimated forfeiture rates are based upon historical forfeitures. We estimated the annual forfeiture rates at December 31, 2012, 2011, and 2010, to be as follows:

	December 31,		
	2012	2011	2010
Executives and outside directors	2.43%	2.45%	2.53%
Non-executives	6.85%	6.86%	6.59%

Stock option activity during the years ended December 31, 2012, 2011, and 2010 was as follows:

	2012				2011				2010			
	Number of Options (in 000's)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Terms (in years)	Aggregate Intrinsic Value (in 000's)	Number of Options (in 000's)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Terms (in years)	Aggregate Intrinsic Value (in 000's)	Number of Options (in 000's)	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Terms (in years)	Aggregate Intrinsic Value (in 000's)
Outstanding at beginning of the year	1,502	\$ 19.53			1,525	\$ 18.78			1,693	\$ 18.37		
Granted	153	19.92			108	28.97			120	23.80		
Exercised	(189)	11.62		\$ 1,155	(102)	16.51		\$ 820	(121)	16.20		\$ 1,238
Forfeited/canceled/expired	(54)	21.48			(29)	25.53			(167)	20.16		
Outstanding at end of the year (1)	1,412	\$ 20.56	4.91	\$ 2,452	1,502	\$ 19.53	4.81	\$ 1,972	1,525	\$ 18.78	5.37	\$ 14,669
Vested and expected to vest at the end of the year (1)	1,409	\$ 20.56	4.90	\$ 2,446	1,494	\$ 19.51	4.78	\$ 1,971	1,503	\$ 18.72	5.32	\$ 14,547
Exercisable at the end of the year (1)	1,181	\$ 20.24	4.25	\$ 2,347	1,229	\$ 18.71	4.05	\$ 1,889	1,140	\$ 17.89	4.46	\$ 11,983

(1) The aggregate intrinsic value represents the total pre-tax value (the difference between our closing stock price on the last trading day of 2012, 2011, and 2010 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, 2012, 2011, and 2010. This amount will change based on the fair market value of our stock.

During 2012, 2011, and 2010, there were no modifications made to outstanding stock options.

Cash received from option exercises for the years ended December 31, 2012, 2011, and 2010 was \$2.2 million, \$1.7 million, and \$2.0 million, respectively. The actual tax benefit realized from option exercises was \$0.2 million, \$0.3 million and \$0.4 million for the years ended December 31, 2012, 2011, and 2010, respectively.

Significant option groups outstanding at December 31, 2012 and the related weighted average exercise price and life information are listed below:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding (in 000's)	Weighted-Average Remaining Years of Contractual Life	Weighted-Average Exercise Price	Number Exercisable (in 000's)	Weighted-Average Exercise Price
\$12.58 to \$13.27	195	1.79	\$ 12.62	190	\$ 12.61
14.85 to 16.64	220	5.75	16.24	203	16.28
17.38 to 17.62	230	2.04	17.59	230	17.59
18.03 to 21.95	294	7.22	20.36	173	20.66
23.66 to 29.25	466	5.79	27.32	378	27.35
32.40 to 35.35	7	4.94	34.51	7	34.51
\$12.58 to \$35.35	1,412	4.91	\$ 20.56	1,181	\$ 20.24

As of December 31, 2012, we expect to recognize \$2.0 million of total unrecognized pre-tax stock-based compensation expense related to non-vested stock options over a remaining weighted-average life of 1.7 years.



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On February 13, 2013, the Compensation Committee granted certain executive employees 168,400 stock options in connection with the 2012 annual review cycle. The options were granted as part of long-term incentive compensation to assist us in meeting our performance and retention objectives and are subject to a three-year vesting period (8.33% each quarter). The total grant date fair value of these awards was \$1.5 million.

**Restricted Stock**

During the year ended December 31, 2012, the Compensation Committee and Board of Directors awarded shares of restricted stock to our employees under various stock incentive plans. In addition, 5,000 shares of restricted stock awards are awarded to each of our outside directors as part of their annual compensation package on July 1st of each year. The restricted stock awards granted during 2012 consisted of the following:

(in thousands, except share amounts)

Restricted Stock Grant Date	Number of Shares Granted	Grant Date Fair Value	Grantee	Vesting Period
February 8, 2012	71,300	\$ 1,432	Named Executives	3 -Year Vesting Period (8.33% each quarter)
July 1, 2012	30,000	382	Outside Directors	1 -Year Vesting Period (25% each quarter)
August 2, 2012	100,000	1,099	Employees	3 -Year Vesting Period (33.33% each year)
September 4, 2012	325	4	Employee	3 -Year Vesting Period (33.33% each year)
September 10, 2012	3,265	40	Employee	3 -Year Vesting Period (33.33% each year)
	<u>204,890</u>	<u>\$ 2,957</u>		

During the year ended December 31, 2012, we recognized \$0.8 million of pre-tax stock-based compensation expense related to our 2012 restricted stock grants.

Non-vested restricted stock award activity during the years ended December 31, 2012, 2011, and 2010 were the following:

	Shares Granted (in 000's)	Weighted-Average Grant Date Fair Value
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	195	17.30
Granted	176	25.76
Vested	(162)	17.53
Forfeited	(4)	16.24
Non-vested at December 31, 2011	205	24.43
Granted	205	15.22
Vested	(133)	21.91
Forfeited	(7)	23.11
Non-vested at December 31, 2012	<u>270</u>	<u>\$ 18.72</u>

As of December 31, 2012, we expect to recognize \$4.2 million of total unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards over a weighted-average life of 1.8 years.

On February 13, 2013, the Compensation Committee granted certain executive employees 79,500 restricted stock awards in connection with the 2012 annual review cycle. The awards were granted as part of long-term incentive compensation to assist us in meeting our performance and retention objectives and are subject to a three-year vesting period (8.33% each quarter). The total grant date fair value of these awards was \$1.5 million.

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**Stock Incentive Plans**

Our active stock-based incentive plans include those adopted in 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 option 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 three or 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
1996 Stock Incentive Plan	12/1/1996	800,000	—	20,834
1998 Stock Incentive Plan	5/27/1998	630,000	—	48,531
1999 Stock Incentive Plan	1/27/1999	630,000	—	6,510
1999A Stock Incentive Plan	10/7/1999	1,000,000	—	77,997
2002 Stock Incentive Plan	2/5/2002	1,000,000	—	70,583
2003 Stock Incentive Plan	6/18/2003	1,000,000	10,750	531,582
2006 Stock Incentive Plan	6/13/2006	1,000,000	22,660	515,247
2010 Stock Incentive Plan	6/15/2010	1,000,000	544,795	396,192
			578,205	1,667,476

**Note 17 — Other Income (Expense), Net**

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

(in thousands)	2012	2011	2010
Net gain (loss) on foreign currency exchange contracts <sup>(1)</sup>	\$ 35	\$ (271)	\$ (329)
Net gain (loss) on foreign currency exchange transactions	(1,721)	(1,141)	568
Other income	273	337	284
Other income (expense), net	\$ (1,413)	\$ (1,075)	\$ 523

<sup>(1)</sup> This represents the gains and (losses) incurred on foreign currency hedging derivatives (see Note 19 for further details).

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**Note 18 — Earnings Per Share**

Earnings per share for the years ended December 31, 2012, 2011, and 2010 was calculated as follows:

(in thousands, except per-share amounts)	2012	2011	2010
<b>BASIC</b>			
Net income	\$ 16,553	\$ 19,946	\$ 15,081
Weighted-average common shares outstanding	14,952	14,912	13,764
Basic earnings per share	\$ 1.11	\$ 1.34	\$ 1.10
<b>DILUTED</b>			
Net income	\$ 16,553	\$ 19,946	\$ 15,081
Weighted-average common shares outstanding for basic	14,952	14,912	13,764
Dilutive effect of stock options and restricted stock	158	301	342
Weighted-average common shares outstanding on a diluted basis	15,110	15,213	14,106
Diluted earnings per share	\$ 1.10	\$ 1.31	\$ 1.07

The number of stock options and shares of restricted stock excluded from the computation of diluted earnings per common share for the years ended December 31, 2012, 2011 and 2010 were as follows:

(in thousands)	2012	2011	2010
Stock options	1,038	593	518
Restricted stock shares	166	120	160

**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 Argentinian Peso, 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 the derivatives are recorded in other income (expense), net. Derivatives are recorded on 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 are derived from level 2 inputs in the fair value hierarchy. The following table sets forth our financial assets and liabilities that were accounted for at fair value on a recurring basis on December 31, 2012 and 2011:

(In thousands)	December 31, 2012				December 31, 2011			
	Fair Value Measurement Using			Total Balance	Fair Value Measurement Using			Total Balance
	(Level 1)	(Level 2)	(Level 3)		(Level 1)	(Level 2)	(Level 3)	
Foreign currency exchange futures contracts	\$ —	\$ (13)	\$ —	\$ (13)	\$ —	\$ (21)	\$ —	\$ (21)

We held foreign currency exchange contracts which resulted in a net pre-tax gain of approximately \$35 thousand, a net pre-tax loss of approximately \$0.3 million, and a net pre-tax loss of \$0.3 million for the years ended December 31, 2012, 2011, and 2010, respectively.

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*Futures Contracts*

Details of futures contracts held at December 31, 2012 and 2011 are as follows:

<u>Date Held</u>	<u>Type</u>	<u>Position Held</u>	<u>Notional Value (in millions)</u>	<u>Forward Rate</u>	<u>Gain/(Loss) Recorded at Balance Sheet Date (in thousands)<sup>(1)</sup></u>	<u>Settlement Date</u>
December 31, 2012	USD/Euro	Euro	\$ 5.0	1.3228	\$ (13)	January 18, 2013
December 31, 2011	USD/Chinese Yuan Renminbi	USD	\$ 10.0	CNY 6.353	\$ 46	January 13, 2012
December 31, 2011	USD/Euro	Euro	\$ 6.5	1.3091	\$ (67)	January 20, 2012

<sup>(1)</sup> Gains on futures contracts are recorded in prepaid expenses and other current assets. Losses on futures contracts are recorded in other accrued expenses.

**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, \$0.7 million and \$0.6 million of expense for company contributions for the years ended December 31, 2012, 2011, and 2010, respectively.

**Note 21 — Business Combination**

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 and outstanding shares of Enson for total consideration of \$125.9 million. This transaction closed on November 4, 2010. The consideration consisted of \$95.1 million in cash and 1,460,000 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 that may be required by CG in the event Enson's net asset and earnings targets failed to meet certain agreed upon levels (see "*Contingent Consideration*" below). We included this \$5.0 million hold-back in the purchase price allocation, since we believed it was probable that we would owe the full amount to CG. At December 31, 2011, the \$5.0 million hold-back was included in other accrued liabilities, and during 2012, we paid the \$5.0 million hold-back to CG.

*Enson Description*

Enson is a leading manufacturer of remote controls. Prior to the acquisition, Enson was also one of our significant suppliers. The Enson corporate office, located in Hong Kong, is 12,000 square feet and employs 62 people. Enson controls two factories located in the PRC.

The southern factory is located in Guangdong Province, PRC within the city of Guangzhou. The Guangzhou factory is 710,203 square feet and employs 732 people, with an additional 4,115 factory workers contracted through a third-party agency agreement.

The northern factory is located in Jiangsu Province, PRC within the city of Yangzhou. The Yangzhou factory is 1,204,697 square feet and employs 367 people, with an additional 2,647 factory workers contracted through a third-party agency agreement.

**UNIVERSAL ELECTRONICS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

*Consideration*

The sources of the consideration were the following:

(In thousands) Source Description	Amount	Percentage of Consideration
Existing cash and cash equivalents	\$ 54,138	43.0%
Funds from U.S. Bank Term Loan (see Note 8)	35,000	27.8
Funds from U.S. Bank Revolving Credit Line (see Note 8)	6,000	4.8
Newly issued shares of Universal Electronics Inc. common stock	30,762	24.4
	<u>\$ 125,900</u>	<u>100.0%</u>

*Contingent Consideration*

The Enson stock purchase agreement contained net asset and earnings targets that were used to determine the final consideration to be paid to CG. Total consideration was increased by \$0.1 million as a result of net assets being higher than the agreed upon target on the closing date of the acquisition. No adjustments were made to the purchase price related to the earnings target, which covered the twelve months ended March 31, 2011.

On May 5, 2011, we received a Dispute Notice from CG, pursuant to the Stock Purchase Agreement, outlining their disagreement with certain tax estimates that were included within Enson's Statement of Net Assets on November 3, 2010. We responded by disagreeing with CG's dispute and have not heard from CG since. However, depending on the ultimate resolution of this dispute, the total purchase consideration may increase by up to \$1.5 million.

*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.

*Purchase Price Allocation*

The purchase price allocation on November 4, 2010, (the Enson acquisition date) was the following:

(in thousands)	Weighted Average Estimated Lives	Fair Value
Cash and cash equivalents		\$ 20,866
Inventories		23,469
Accounts receivable		37,625
Prepaid expenses and other current assets		738
Property, plant and equipment	20 years	66,644
Deferred income taxes		2,619
Other assets		3,409
Interest bearing liabilities		(4,227)
Non-interest bearing liabilities		(67,879)
Net tangible assets acquired		<u>83,264</u>
Customer relationships	10 years	23,300
Trademark and trade name	10 years	2,000
Goodwill		17,336
Total estimated purchase price		<u>\$ 125,900</u>

Goodwill and the customer relationships and trademark and trade name amortization are not expected to be deductible for tax purposes.

**UNIVERSAL ELECTRONICS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**Note 22 — Quarterly Financial Data (Unaudited)**

Summarized quarterly financial data for the years ended December 31, 2012 and 2011, are presented below:

(In thousands, except per share amounts)	2012			
	March 31,	June 30,	September 30,	December 31,
Net sales	\$ 103,732	\$ 116,704	\$ 124,871	\$ 117,783
Gross profit	28,327	32,970	36,438	35,702
Operating income	2,312	6,466	9,534	7,890
Net income	1,632	5,153	6,850	2,918
<b>Earnings per share <sup>(1)</sup>:</b>				
Basic	\$ 0.11	\$ 0.35	\$ 0.46	\$ 0.19
Diluted	\$ 0.11	\$ 0.34	\$ 0.45	\$ 0.19
<b>Shares used in computing earnings per share:</b>				
Basic	14,871	14,933	14,984	15,016
Diluted	15,108	15,048	15,099	15,180
<b>2011</b>				
(In thousands, except per share amounts)	March 31,	June 30,	September 30,	December 31,
Net sales	\$ 105,712	\$ 121,746	\$ 123,527	\$ 117,645
Gross profit	27,579	34,944	34,178	33,360
Operating income	2,535	8,310	9,465	6,266
Net income	1,827	6,121	7,084	4,914
<b>Earnings per share <sup>(1)</sup>:</b>				
Basic	\$ 0.12	\$ 0.41	\$ 0.48	\$ 0.33
Diluted	\$ 0.12	\$ 0.40	\$ 0.47	\$ 0.33
<b>Shares used in computing earnings per share:</b>				
Basic	14,976	15,025	14,887	14,763
Diluted	15,383	15,407	15,147	14,919

<sup>(1)</sup> 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, 2012.

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in its attestation report which is included herein.

### *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 2012.

**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, 2012, 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.

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, 2012, 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, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012, and our report dated March 14, 2013 expressed an unqualified opinion.

/s/ Grant Thornton LLP  
Irvine, California

March 14, 2013



**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 2013 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 2013 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](http://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](http://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 2013 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 2013 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 2013 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Exchange Act.

The following summarizes our equity compensation plans at December 31, 2012:

**Equity Compensation Plan Information**

Plan Category	(a) Number of Securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) 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	1,518,896	\$ 20.03	578,205
Equity compensation plans not approved by security holders	148,580	23.13	—
<b>Total</b>	<b>1,667,476</b>	<b>\$ 20.30</b>	<b>578,205</b>

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 2013 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 2013 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 76 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 Santa Ana, State of California.

**UNIVERSAL ELECTRONICS INC.**

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

Date: March 14, 2013

**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 by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

NAME & TITLE	SIGNATURE	DATE
Paul D. Arling <i>Chairman and Chief Executive Officer</i> (principal executive officer)	<u>/s/ Paul D. Arling</u>	March 14, 2013
Bryan M. Hackworth <i>Chief Financial Officer</i> (principal financial officer and principal accounting officer)	<u>/s/ Bryan M. Hackworth</u>	March 14, 2013
Satjiv S. Chahil <i>Director</i>	<u>/s/ Satjiv S. Chahil</u>	March 14, 2013
William C. Mulligan <i>Director</i>	<u>/s/ William C. Mulligan</u>	March 14, 2013
J. C. Sparkman <i>Director</i>	<u>/s/ J.C. Sparkman</u>	March 14, 2013
Gregory P. Stapleton <i>Director</i>	<u>/s/ Gregory P. Stapleton</u>	March 14, 2013
Carl E. Vogel <i>Director</i>	<u>/s/ Carl E. Vogel</u>	March 14, 2013
Edward K. Zinser <i>Director</i>	<u>/s/ Edward K. Zinser</u>	March 14, 2013

**EXHIBIT INDEX**

<b><u>Exhibit Number</u></b>	<b><u>Document Description</u></b>
2.1	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. 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))
*10.2	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))
*10.3	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))
*10.4	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))
*10.5	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))
*10.6	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))
*10.7	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))
*10.8	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))
*10.9	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))
*10.10	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))

<u>Exhibit Number</u>	<u>Document Description</u>
*10.11	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))
*10.12	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))
*10.13	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))
*10.14	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))
*10.15	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))
*10.16	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))
*10.17	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))
10.18	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))
*10.19	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))
*10.20	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))
10.21	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))
10.22	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))
10.23	Amended and Restated Credit Agreement dated as of November 1, 2010 between Universal Electronics Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 filed on March 16, 2011 (File No. 02-21044))
10.24	Revolving Note dated November 1, 2010 between Universal Electronics Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 filed on March 16, 2011 (File No. 02-21044))
10.25	Term Note dated November 1, 2010 from Universal Electronics Inc. to U.S. Bank National Association (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 filed on March 16, 2011 (File No. 02-21044))
10.26	Pledge Agreement dated November 1, 2010 between UEI Hong Kong Private Limited and Enson Assets Limited to U.S. Bank National Association (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 filed on March 16, 2011 (File No. 02-21044))

<u>Exhibit Number</u>	<u>Document Description</u>
10.27	Security Agreement dated November 1, 2010 from Universal Electronics Inc. to U.S. Bank National Association (incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 filed on March 16, 2011 (File No. 02-21044))
*10.28	Universal Electronics Inc. 2010 Stock Incentive Plan (incorporated by reference to Appendix C to the Company's Proxy Statement for its 2010 Annual Meeting of Stockholders filed on April 30, 2010 (File No. 02-21044))
*10.29	Form of Option Agreement used in connection with the Universal Electronics Inc. 2010 Stock Incentive Plan (incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-8 filed on July 5, 2011 (File No. 333-175345))
*10.30	Form of Restricted Stock Unit Agreement used in connection with the Universal Electronics Inc. 2010 Stock Incentive Plan (incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-8 filed on July 5, 2011 (File No. 333-175345))
*10.31	Form of Second Amendment to Executive Officer Employment Agreement dated February 29, 2008 by and between Universal Electronics Inc. and Paul D. Arling (filed herewith)
10.32	First Amendment to Amended and Restated Credit Agreement dated October 26, 2011 between Universal Electronics Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed on March 14, 2012 (File No. 02-21044))
10.33	Acknowledgment and Agreement of Pledgor dated October 26, 2011 from UEI Hong Kong Private Limited (incorporated by reference to Exhibit 10.36 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed on March 14, 2012 (File No. 02-21044))
10.34	Second Amendment to Amended and Restated Credit Agreement dated March 2, 2012 between Universal Electronics Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed on March 14, 2012 (File No. 02-21044))
10.35	Standard Office Lease between Universal Electronics Inc. and The Realty Associates Fund VIII, L.P., dated May 11, 2012 (Incorporated by references to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 11, 2012 filed on May 18, 2012 (File No. 0-21044))
10.36	Third Amendment to Amended and Restated Credit Agreement dated October 2, 2012 between Universal Electronics Inc. and 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 (filed herewith)
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)
***101.INS	XBRL Instance Document
***101.SCH	XBRL Taxonomy Extension Schema Document
***101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
***101.DEF	XBRL Taxonomy Extension Linkbase Document
***101.LAB	XBRL Taxonomy Extension Label Linkbase Document

<u>Exhibit Number</u>	<u>Document Description</u>
***101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
*	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.
***	XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

**SECOND AMENDMENT TO  
EXECUTIVE OFFICER  
EMPLOYMENT AGREEMENT**

**THIS SECOND AMENDMENT TO EXECUTIVE OFFICER EMPLOYMENT AGREEMENT** (the "Second Amendment") is made and entered into this 29<sup>th</sup> day of February, 2008 by and between **UNIVERSAL ELECTRONICS INC.** (the "Employer") and **PAUL D. ARLING** ("Executive").

**RECITALS:**

**WHEREAS**, the Employer and Executive are parties to that certain Executive Officer Employment Agreement dated April 23, 2003, as amended by that First Amendment to Executive Officer Employment Agreement dated October 21, 2005 (collectively, the "Executive Officer Employment Agreement, as amended"); and

**WHEREAS**, the Executive Officer Employment Agreement, as amended is set to expire on April 30, 2009; and

**WHEREAS**, the parties wish to extend the expiration date of the Executive Officer Employment Agreement, as amended to April 30, 2011.

**NOW, THEREFORE**, the parties, intending to be legally bound, agree as follows:

1. Subparagraph 3(a) of the Executive Officer Employment Agreement, as amended is hereby amended to provide that the Executive Officer Employment Agreement, as amended shall continue through the end of business on April 30, 2011.
2. Except as specifically modified as set forth in this Second Amendment, the Executive Officer Employment Agreement, as amended shall be and remain in full force and effect.

**IN WITNESS WHEREOF**, the parties have executed this Second Amendment as of the 29<sup>th</sup> day of February, 2008.

Signed and acknowledged in the presence of:

**UNIVERSAL ELECTRONICS INC.**

/s/ Richard A. Firehammer Jr.

By: /s/ J.C. Sparkman

J.C. Sparkman, Chairman of the Compensation Committee of the UEI Board of Directors

**PAUL D. ARLING**

/s/ Richard A. Firehammer Jr.

/s/ Paul D. Arling

Signature



**AMENDED AND RESTATED CREDIT AGREEMENT**

**by and between**

**UNIVERSAL ELECTRONICS INC.**

**and**

**U.S. BANK NATIONAL ASSOCIATION**

**Dated as of October 2, 2012**

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**AMENDED AND RESTATED CREDIT AGREEMENT**

THIS AMENDED AND RESTATED CREDIT AGREEMENT (this “Agreement”), dated as of October 2, 2012, 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 November 1, 2010 (the “Existing Credit Agreement”).

B. The Borrower has requested that the Bank agree to amend and restate the Existing Credit Agreement 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 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 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 an Alternate Base 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.

“Alternate Base Rate”: For any day, a rate of interest per annum equal to the highest of (a) the Prime Rate for such day, (b) the sum of the Federal Funds Rate for such day plus 0.5% per annum and (c) the LIBOR rate determined pursuant to Section 2.4(a) for a 1 month Loan Period on such day (or if such day is not a Banking Day, the immediately preceding Banking Day) for Dollars plus 1.00% per annum.

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

“Applicable Margin”: means, with respect to LIBOR Rate Loans and Alternate Base Rate Loans, at any time, the percentage rate per annum which is applicable at such time with respect to LIBOR Rate Loans and Alternate Base Rate Loans as set forth in the Pricing Schedule.

“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.

“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).

“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.

“Commitment”: The Revolving Commitment.

“Consolidated Cash Flow Leverage Ratio”: The ratio of Consolidated Total Funded Debt to Consolidated EBITDA, as measured on the last day of a fiscal quarter for the four quarters then ended.

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

“Consolidated EBITDA”: For any period of determination, on a consolidated basis for the Borrower and without duplication, the net income of the Borrower plus income taxes, plus Consolidated Interest Expense, plus depreciation expense, plus amortization expense, plus extraordinary losses and minus extraordinary gains, all as determined in accordance with GAAP.

“Consolidated EBITDAR”: For any period of determination, on a consolidated basis for the Borrower and without duplication, the Consolidated EBITDA plus consolidated rent or lease expense of the Borrower, all as determined for said period in accordance with GAAP.

“Consolidated Fixed Charge Coverage Ratio”: For any period of determination, on a consolidated basis for the Borrower and without duplication, as measured on the last

day of a fiscal quarter for the four quarters then ended, (a) Consolidated EBITDAR, minus cash taxes, minus Restricted Payments paid in cash, and minus Consolidated Maintenance Capital Expenditures divided by (b) the sum of consolidated required principal payments (on short and long term debt and Capitalized Leases), plus Consolidated Interest Expense, plus rental or lease expense, all as determined for said period in accordance with GAAP.

“Consolidated Interest Expense”: For any period of determination, on a consolidated basis for the Borrower and without duplication, 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.

“Consolidated Liquidity”: For any period of determination, on a consolidated basis for the Borrower and without duplication, the aggregate consolidated amount, without duplication, of (a) cash and marketable securities that are liquid or readily liquid within 90 days and are acceptable to the Bank, plus (b) the amount available to be borrowed as Revolving Loans under this Agreement.

“Consolidated Maintenance Capital Expenditures”: For any period of determination, on a consolidated basis and without duplication, 50% of the consolidated equipment depreciation expense of the Borrower, determined in accordance with GAAP.

“Consolidated Total Funded Debt”: As of any date of determination, the consolidated principal amount of all Indebtedness of the Borrower excluding Indebtedness described in clauses (h), (j) and (k) of the definition of “Indebtedness”.

“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.



“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.

“Effective Date”: Any Banking Day on which all the conditions precedent to the Bank’s obligation to make the Revolving Loans, 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.

“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 2.10 and 2.13.

“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).

“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.

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

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

“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 Revolving 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 Revolving Note.

“Obligations”: The Borrower’s obligations in respect of the due and punctual payment of principal and interest on the Revolving 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 2.18(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) Any Acquisition to which the Bank has provided written consent, and (b) any Acquisition for which the following conditions are met:

(i) no Default or Event of Default exists or will result after giving effect to any such acquisition

(ii) 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;

(iii) 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;

(iv) after giving effect to such acquisition, the Acquisition Target shall be owned directly by the Borrower or shall become a wholly-owned Subsidiary, directly or indirectly, of the Borrower and, to the extent required under Section 5.14, becomes a Restricted Subsidiary ;

(v) the Borrower has delivered to the Bank a pro forma Compliance Certificate, certified by the chief financial officer of the Borrower, demonstrating that both immediately before and immediately after giving effect to such acquisition, on a pro forma basis as if the Acquisition Target had been a Subsidiary of the Borrower or the acquired assets were owned by the Borrower or one of its Subsidiaries as of the date (the “Assumed Acquisition Date”) of the most recent Compliance Certificate delivered to the Bank, the Borrower would have been in compliance with all of the terms, provisions, covenants and conditions contained in this Agreement and the other Loan Documents at all times from and after the Assumed Acquisition Date, which pro forma compliance shall be demonstrated by the Borrower to Bank pursuant to such financial and other information concerning such Acquisition as the Bank may reasonably require, provided that, for purposes of meeting the requirements of this clause (v), the pro

forma compliance with Section 6.16 concerning the Consolidated Cash Flow Leverage Ratio shall be 0.25 less than the ratio required under Section 6.16 as of the Assumed Acquisition Date;

(vi) all material consents, waivers and approvals required for the consummation of such Acquisition and the efficient operation of the Acquisition Target after such consummation have been obtained; and

(vii) after giving effect to such acquisition, the total cash or other consideration paid or payable in cash or other property (including any assumed Indebtedness) in connection with (A) such Acquisition shall not exceed \$5,000,000 and (B) all such Acquisitions under this clause (b) during the term of this Agreement shall not exceed \$10,000,000.

“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 dated as of November 1, 2010, given by the UEI Hong Kong Private Limited, a company organized under the laws of Hong Kong, as pledgor, and Enson Assets Limited, a company organized under the laws of the British Virgin Islands, as issuer, in favor of the Bank, as the same may be amended, restated, or otherwise modified from time to time.

“Pricing Schedule”: Schedule 1.1 attached hereto and identified as such.

“Prime Rate”: The “Prime Rate” announced by the Bank as such, as and when the same may change from time to time

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

“Quarterly Payment Date”: The first day of each January, April, July and October or, if such day is not a Business Day, the next succeeding Business Day.

“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) Enson Assets Limited, a company incorporated under the laws of the British Virgin Islands, (c) UEI Hong Kong Private Limited, a company organized under the Laws of Hong Kong, (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”: \$55,000,000.

“Revolving Commitment Ending Date”: November 1, 2014.

“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 A, 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, as the same may be amended, restated, or otherwise modified from time to time.

“Security Documents”: The Security Agreement and the Pledge Agreement, and each other agreement, document or instrument providing for a Lien in favor of the Bank to secure the Obligations.

“Shares Repurchase Dutch Auction”: The Borrower’s repurchase of its Equity Interests by inviting holders of its Equity Interests to tender up to a specified number of shares of its Equity Interests, at any price within a range provided by the Borrower. The actual purchase price to be selected is the lowest price that allows the Borrower to purchase such specified number of shares, and the Borrower pays that purchase price to all holders of its Equity Interests who tendered at or below that price. If the number of shares of Equity Interests tendered to the Borrower exceeds the number it specified, then the Borrower will purchase fewer than all shares of its Equity Interests tendered at or below the purchase price on a pro rata basis to all holders of its Equity Interests who tendered at or below the purchase price. If fewer than the specified number of shares of the Borrower’s Equity Interests are tendered, then Borrower will either cancel the invitation (provided it had been made conditional on a minimum acceptance), or it will buy back all tendered shares of its Equity Interests at the maximum price.

“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.

“Taxes”: As defined in Section 2.18(a).

“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.

“U.S. Taxes”: As defined in Section 2.18(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 Revolving Loan Commitment. On the terms and subject to the conditions hereof, the Bank agrees to make available to the Borrower revolving loans (each a “Revolving Loan” and collectively the “Revolving Loans”) 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.

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 an Alternate Base 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 an Alternate Base 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 Revolving Note. 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 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 Revolving Note, 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.

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 Alternate Base Rate (an “Alternate Base 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 Alternate Base 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. In any event, if the Loan Period for a LIBOR Rate Loan extends beyond the Termination Date, such LIBOR Rate Loan must be prepaid on the Termination Date. 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 Revolving Loans maturing, acceleration of the Revolving Loans 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 Revolving Loan credit 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 Revolving 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 3.0% 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 on Revolving Loans. Interest and principal on the Revolving Loans shall be paid as follows:

(a) Interest accrued on Alternate Base Rate Loans shall be payable (A) on each Quarterly Payment Date, and (B) on the Termination Date; provided that interest under Section 2.4(e) shall be payable on demand. Interest accrued on each LIBOR Rate Loan shall be payable on the last day of its applicable Loan Period, on any date on which a LIBOR Rate Loan is prepaid, whether by acceleration or otherwise, and on the Termination Date. Interest accrued on LIBOR Rate Loan having a Loan Period longer than 3 months shall also be payable on the last day of each 3-month interval during such Loan Period.

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

(c) 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.

Section 2.6. Prepayments.

(a) Optional Prepayments. The Borrower may prepay Alternate Base 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) Reborrowing of Amounts Prepaid. 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.

#### 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 Alternate Base Rate Loans plus (b) the Alternate Base 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 an Alternate Base 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 Alternate Base Rate Loans plus (b) the Alternate Base Rate plus (c) 5.0% per annum.

Section 2.14. Letter of Credit Fees. 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 2.0 % by the original face amount of each such Letter of Credit determined on a per annum basis, payable quarterly in arrears on each Quarterly Payment Date, 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 Revolving Note 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. Use of Proceeds. The initial Revolving Loan hereunder shall be used to pay in full the remaining principal balance and accrued and unpaid interest of the "Revolving Loans" and the "Term Loan," as such terms are defined in the Existing Credit Agreement. Revolving Loans after the initial Revolving Loan hereunder shall be used to (a) provide financing for the Borrower's working capital, capital expenditures and other general corporate purposes, including Permitted Acquisitions, (b) support the issuance of commercial and standby Letters of Credit, (c) for the repurchase or redemption of shares of the Equity Interests of the Borrower to the extent permitted under this Agreement, and (d) for the payment of transaction fees and expenses related to this Agreement.

Section 2.18. 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 2.19. 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.

Section 2.20. Yield Protection. If, on or after the date of this Agreement, the adoption of any law or any governmental or quasi-governmental rule, regulation, policy, guideline, or directive (whether or not having the force of law), or any change in the interpretation, promulgation, implementation, or administration thereof by any governmental or quasi-governmental authority, central bank, or comparable agency charged with the interpretation or administration thereof including, notwithstanding the foregoing, all requests, rules, guidelines or directives in connection with Dodd-Frank Wall Street Reform and Consumer Protection Act regardless of the date enacted, adopted, or issued, or compliance by the Bank with any request or directive (whether or not having the force of law) of any such authority, central bank, or comparable agency:



(a) subjects any the Bank to any taxes, or changes the basis of taxation of payments (other than with respect to taxes imposed on its overall net income and franchise taxes imposed on it in lieu of net income taxes) to the Bank in respect of the Revolving Loans or participations therein, or

(b) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit, or similar requirement against assets of deposits with or for the account of, or credit extended by, the Bank (other than reserves and assessments taken into account in determining the interest rate applicable to the Revolving Loans), or

(c) imposes any other condition the result of which is to increase the cost to the Bank of maintaining the Revolving Loans, or reduces any amount receivable by the Bank in connection with the Revolving Loans or participations therein, or requires the Bank to make any payment calculated by reference to the amount of the Revolving Loans or participations therein held or interest received by it, by an amount deemed material by the Bank, and the result of any of the foregoing is to increase the cost to the Bank of maintaining the Revolving Loans or to reduce the return received by the Bank in connection with the Revolving Loans or participations therein, then, within 15 days after demand by the Bank, the Borrower shall pay the Bank such additional amount or amounts as will compensate the Bank for such increased cost or reduction in amount received.

Section 2.21. Changes in Capital Adequacy Regulations. If the Bank determines the amount of capital required or expected to be maintained by the Bank or any corporation controlling the Bank is increased as a result of a Change, then, within 15 days after demand by the Bank, the Borrower shall pay the Bank the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital that the Bank determines is attributable to this Agreement, its outstanding credit exposure or the Revolving Loans (after taking into account the Bank's policies as to capital adequacy). "Change" means (a) any change after the date of this Agreement in the Risk-Based Capital Guidelines or (b) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) or in the interpretation, promulgation, implementation, or administration thereof after the date of this Agreement that affects the amount of capital required or expected to be maintained by the Bank or any corporation controlling the Bank. Notwithstanding the foregoing, for purposes of this Agreement, all requests, rules, guidelines, or directives in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act shall be deemed to be a Change regardless of the date enacted, adopted, or issued and all requests, rules, guidelines, or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority), or the United States financial regulatory authorities shall be deemed to be a Change regardless of the date adopted, issued, promulgated, or implemented. "Risk-Based Capital Guidelines" means (x) the risk-based capital guidelines in effect in the United States on the date of this Agreement, including transition rules, and (y) the corresponding capital regulations promulgated by regulatory authorities outside the United States including

transition rules, and any amendments to such regulations adopted prior to the date of this Agreement.

**ARTICLE III.  
CONDITIONS PRECEDENT**

Section 3.1. Conditions of Initial Transaction. The making of 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 executed by a duly authorized officer (or officers) of the Borrower and dated the Effective Date.
  - (ii) The Security Agreement and Confirmatory Security Agreements (as defined in the Security Agreement), duly executed by a duly authorized officer (or officers) of the Borrower and dated the Effective Date.
  - (iii) A certificate of 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 Loan 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, 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.
  - (iv) 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.
  - (v) 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.

(vi) 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.

(vii) ACORD 25 and 27 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

(b) Opinions. 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.

(c) Pay Off of Indebtedness. Proceeds of the initial Revolving Loan on the Effective Date shall be used to pay in full the remaining principal balance and accrued and unpaid interest of the “Revolving Loans” and the “Term Loan,” as such terms are defined in the Existing Credit Agreement, and all other Indebtedness of the Borrower and the Restricted Subsidiaries not permitted under this Agreement shall be paid in full.

(d) Security Documents. All applicable Security Documents (or financing statements with respect thereto) shall have been appropriately filed or recorded to the satisfaction of the Bank or shall have been delivered to the Bank in acceptable form for such filing and recording; any pledged collateral shall have been duly delivered to the Bank or its designee; 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 Security Documents shall have been established to the satisfaction of the Bank and its counsel.

(e) 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.

(f) Other Matters. All corporate and legal proceedings, including tax and regulatory matters, 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 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 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 all Revolving Loans and Letters of Credit. The Bank's obligation to make 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 Revolving 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 Revolving Note, and to perform its obligations under the Loan Documents to which it is a party. 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 Loan Documents to which it is a party have been duly authorized by all necessary corporate action by the Borrower. This Agreement constitutes, and the Revolving Note 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 Loan Documents to which it is a party 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 Loan Documents.

Section 4.5. Financial Statements and Condition.

(a) The December 31, 2011, audited consolidated financial statements of the Borrower and its Subsidiaries, and the Borrower's unaudited financial statements dated as of June 30, 2012, heretofore delivered to the Bank were prepared in accordance with GAAP in effect on the date such statements were prepared and fairly present the consolidated financial condition and operations of

the Borrower and its Subsidiaries at such date and the consolidated results of their operations for the period then ended.

(b) Since December 31, 2011, there has been no Material Adverse Occurrence with respect to the Borrower.

(c) The consolidated financial projections (including an operating budget and a cash flow budget) of the Borrower delivered pursuant to Section 5.1(d) of the Existing Credit Agreement were prepared by the Borrower in good faith utilizing assumptions believed by the Borrower to be reasonable at the time.

Section 4.6. Litigation. Other than as set forth in the Borrower's financial statements described in 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 4.5 or 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 4.5 or 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 4.5 or 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 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 Loan 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 the initial Revolving Loan and giving effect thereto, (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.

## **ARTICLE V. AFFIRMATIVE COVENANTS**

Until any obligation of the Bank hereunder to make the Revolving Loans and to issue Letters of Credit has expired or terminated, the Revolving Note 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, 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 the first three fiscal quarters of the Borrower, and within 120 days after the end of each fiscal year of the Borrower, 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, and addressing such other matters as set forth in such Compliance Certificate.

(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) 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 Loan 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.

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 Consolidated 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 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 Revolving Loans and to issue Letters of Credit has expired or terminated, the Revolving Note 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; Prepayment of Indebtedness. 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), provided that, all redemptions and repurchases by the Borrower of its Equity Interests, measured as of the last day of each fiscal year, may not exceed (a) \$20,000,000 in the aggregate for the fiscal year ending on December 31, 2012; and (b) \$40,000,000 in the aggregate for the two fiscal years ending on December 31, 2013, provided further that redemptions and repurchases for the purposes of the preceding proviso shall only include those shares of its Equity Interests repurchased pursuant to Shares Repurchase Dutch Auctions, and shall not include redemptions and repurchases under ongoing and specific redemption and repurchase programs of the Borrower related to its Equity Interests. The Borrower shall not, and shall not permit any Restricted Subsidiary to, prepay or redeem in advance of maturity or regular installments of principal in effect as of the date of this Agreement, or establish a sinking fund for such purpose, with respect to any Indebtedness other than Indebtedness owing to the Bank.

Section 6.7. Transactions with Affiliates. The Borrower shall not, and shall not 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. The Borrower shall not, and shall not permit any Subsidiary to, 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.

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 of 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) Consolidated 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. Consolidated Cash Flow Leverage Ratio. The Borrower shall not permit the Consolidated Cash Flow Leverage Ratio to be more than 1.50 to 1.0 as of the last day of any fiscal quarter.

Section 6.15. Consolidated Fixed Charge Coverage Ratio. The Borrower shall not permit the Consolidated 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. Consolidated Liquidity. The Borrower shall not permit Consolidated Liquidity, as of the end of each fiscal quarter to be less than (a) \$30,000,000 as of the last day of each fiscal quarter for the period from the Effective Date to and including March 31, 2013; (b) \$35,000,000 as of June 30 and September 30, 2013; and (c) \$40,000,000 as of the last day of each fiscal quarter ending on and after December 31, 2013.

Section 6.17. Loan Proceeds. The Borrower shall not, and shall not permit any Subsidiary to, use any part of the proceeds of the Revolving 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:

(d) The Borrower fails to make when due, whether by acceleration or otherwise, any payment of principal of or interest on the Revolving Note or any other Obligation required to be paid to the Bank pursuant to this Agreement.

(e) 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.

(f) The Borrower fails to comply with Sections 5.2 or 5.3 or any section of Article VI hereof, a default, however denominated, exists under any other Loan Document, or the Borrower is in default, however denominated, under any other agreement with the Bank related to Indebtedness owed by the Borrower or any of its Subsidiaries to the Bank.

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) Any Security Document, 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.

(p) Any Change of Control occurs.

(q) 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.

(r) 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 Revolving Note 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 terminated, whereupon the Revolving Commitment shall terminate, (ii) declare the outstanding unpaid principal balance of the Revolving Note the accrued and unpaid interest thereon, and all other Obligations to be forthwith due and payable, whereupon the Revolving Note, 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 the Revolving 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 audit and appraisal fees, 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.

Section 8.3. Waivers, Etc. No failure on the part of the Bank or the holder of the Revolving 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 Revolving Note, 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 Revolving 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 Revolving Loan or other Obligation owing to the Bank, the Revolving Note, the Revolving 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 Revolving 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 Revolving Note, 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 Revolving Note 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, the Revolving Note, or any other Loan Document. The Borrower also agrees that each Participant shall be entitled to the benefits of Sections 2.4, 2.6, 2.18, 2.20 and 2.21 with respect to its participation in the Revolving Commitment and Revolving 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 Loan 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.

(j) 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 Revolving 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.

(k) 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).

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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 Loan Documents, and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be deemed to have been relied upon by the Bank and shall survive the making of the Revolving Loans by the Bank and the execution and delivery to the Bank by the Borrower of the Revolving Note, 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 2.18, 2.20, 2.21, 8.2, 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:

(f) by reason of, relating to, or in connection with the execution, delivery, performance, or enforcement of any Loan Document, any commitments relating thereto, or any transaction contemplated by any Loan Document; or

(g) 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 Revolving Loan, together with all fees, charges,

and other amounts that are treated as interest on such Revolving 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 Revolving 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 Revolving 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 Revolving 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: /s/ Bryan Hackworth

Name: Bryan Hackworth

Title: SVP & CFO

Address for Borrower:

Universal Electronics Inc.  
at its World Headquarters address found  
on its website – [www.ueic.com](http://www.ueic.com)  
Attention: Chief Financial Officer

with a required copy to:

Universal Electronics Inc.  
at its World Headquarters address found  
on its website – [www.ueic.com](http://www.ueic.com)  
Attention: General Counsel

**U.S. BANK NATIONAL ASSOCIATION**

By: /s/ Steven G. Krenik  
Name: Steven G. Krenik  
Title: Vice President

Address for Bank:

4100 Newport Place, Suite 900  
Newport Beach, California 92660  
Fax: (949) 863-2335  
Attention: Steven G. Krenik



## **List of Exhibits and Schedules**

Exhibit A – Form of Revolving Note

Exhibit B – Matters to Be Covered by Opinion of Counsel to the Borrower

Exhibit C – Form of Compliance Certificate

Schedule 1.1 – Pricing Schedule

Schedule 4.7 – Environmental Compliance

Schedule 4.18 – Subsidiaries

Schedule 6.10 – Investments

Schedule 6.11 – Indebtedness

Schedule 6.12 – Liens

Schedule 6.13 – Contingent Obligations

**REVOLVING NOTE**

\$55,000,000    October [ ], 2012

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 FIFTY-FIVE MILLION AND NO/100 DOLLARS (\$55,000,000) 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 November 1, 2010, in the original principal amount of \$20,000,000 (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.

**UNIVERSAL ELECTRONICS INC.**

By \_\_\_\_\_

Title \_\_\_\_\_

Ex A-2

**MATTERS TO BE COVERED BY  
OPINION OF COUNSEL  
TO THE BORROWER AND ITS SUBSIDIARIES**

The opinion of counsel to the Borrower and its Subsidiaries called for by Article III of the Credit Agreement shall be addressed to the Bank and dated the Effective Date. It shall be satisfactory in form and substance to the Bank and shall cover the matters set forth below, subject to such assumptions, exceptions, and qualifications as are acceptable to the Bank and its counsel. Capitalized terms used herein have the respective meanings given such terms in the Credit Agreement.

1. 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 corporate power and authority to carry on its business as now conducted, to enter into the Loan Documents, and to perform all of its obligations under each and all of the foregoing. The Borrower is duly qualified and in good standing as a foreign corporation in all of the jurisdictions in which the character of the properties owned or leased by it or the business conducted by it makes such qualification necessary and the failure to so qualify would permanently preclude the Borrower from enforcing its rights with respect to any material asset or expose the Borrower to any material liability.

2. The Borrower has duly authorized by all necessary corporate action its execution, delivery, and performance of the Loan Documents.

3. The Loan Documents constitute the legal, valid, and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms.

4. The execution, delivery, and performance by the Borrower of the Loan Documents will not (i) violate any provision of any law, statute, rule, or regulation or, to the best knowledge of such counsel, any order, writ, judgment, injunction, decree, determination, or award of any court, governmental agency, or arbitrator presently in effect applicable to the Borrower, (ii) violate or contravene any provision of the certificate of incorporation or bylaws of the Borrower, or (iii) result in a breach of or constitute a default under any indenture, loan, or credit agreement or any other agreement, lease, or instrument known to such counsel 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.

5. 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 Borrower to authorize, or is required in connection with the execution, delivery, and performance of or the legality, validity, binding effect, or enforceability of, the Loan Documents.

6. To the best knowledge of such counsel, there are no actions, suits, or proceedings pending or threatened against or affecting the Borrower or any of its properties before any court or arbitrator, or any governmental department, board, agency, or other instrumentality, that (i) challenge the legality, validity, or enforceability of the Loan Documents, or (ii) if determined adversely to the Borrower could constitute a Material Adverse Occurrence.

7. Each Subsidiary is a corporation duly incorporated and validly existing and in good standing under the laws of its jurisdiction of incorporation indicated on Schedule 4.18 to the Credit Agreement and has all requisite corporate power and authority to carry on its business as now conducted and to perform all of its obligations under each and all of the foregoing. Each Subsidiary is duly qualified and in good standing as a foreign corporation in all of the jurisdictions in which the character of the properties owned or leased by it or the business conducted by it makes such qualification necessary and the failure to so qualify would permanently preclude such Subsidiary from enforcing its rights with respect to any material asset or expose such Subsidiary to any material liability.

8. The Security Documents create the Liens they purport to create upon the properties and interests specifically described therein. The descriptions of properties and interests in the Security Documents and any related financing statements are adequate for the purpose of such instruments and for perfection of the Liens of the Bank.

**COMPLIANCE CERTIFICATE**

To: U.S. Bank National Association:

THE UNDERSIGNED HEREBY CERTIFIES THAT:

(1) I am the duly elected chief financial officer of Universal Electronics Inc. (the "Borrower");

(2) I have reviewed the Credit Agreement dated as of October 2, 2012, between the Borrower and U.S. Bank National Association (the "Credit Agreement"), and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of the Borrower during the accounting period covered by the attachment hereto;

(3) The examination described in paragraph (2) did not disclose, and I have no knowledge, whether arising out of such examinations or otherwise, of the existence of any condition or event that constitutes a Default or an Event of Default (as such terms are defined in the Credit Agreement) during or at the end of the accounting period covered by the attachment hereto or as of the date of this Certificate, except as described below (or on a separate attachment to this Certificate). The exceptions, listing, in detail, the nature of the condition or event, the period during which it has existed, and the action the Borrower has taken, is taking, or proposes to take with respect to each such condition or event, are as follows:

—  
—

(4) Since the [Closing Date] [Compliance Certificate of most recent date], the Borrower has acquired or created the additional United States patents, patent applications, trademarks and trademark registrations, described on Exhibit A hereto.

The foregoing certification, together with the computations in the attachment hereto and the financial statements delivered with this Certificate in support hereof, are made and delivered this \_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ pursuant to Section 5.1(c) of the Credit Agreement.

**UNIVERSAL ELECTRONICS INC.**

By \_\_\_\_\_

Title \_\_\_\_\_

ATTACHMENT TO COMPLIANCE CERTIFICATE

AS OF \_\_\_\_\_, \_\_\_\_\_ WHICH PERTAINS  
 TO THE PERIOD FROM \_\_\_\_\_, \_\_\_\_\_  
 TO \_\_\_\_\_, \_\_\_\_\_

**Sections identified are Sections of the Credit Agreement to which reference  
 should be made for a more complete description of requirements.**

Covenant	Actual	Required	Compliance (Yes/No)
Borrower and Restricted Subsidiaries (pursuant to Section 5.14)	_____ % of the aggregate amount of the consolidated assets of the Borrower and the Borrower's Subsidiaries and _____ % of the aggregate Consolidated EBITDA of the Borrower and the Borrower's Subsidiaries	The Borrower and Restricted Subsidiaries must at least constitute both (i) 70% of the aggregate amount of the consolidated assets of the Borrower and the Borrower's Subsidiaries and (ii) 70% of the aggregate Consolidated EBITDA of the Borrower and the Borrower's Subsidiaries	
Consolidated Cash Flow Leverage Ratio (pursuant to Section 6.14)	_____ to 1.0	Not more than 1.50 to 1.0 as of the last day of any fiscal quarter	
Consolidated Fixed Charge Coverage Ratio (pursuant to Section 6.15)	_____ to 1.0	Not less than 2.00 to 1.0	
Consolidated Liquidity (pursuant to Section 6.16)	_____ to 1.0	Not less than (a) \$30,000,000 as of the last day of each fiscal quarter for the period from the Effective Date to and including March 31, 2013; (b) \$35,000,000 as of June 30 and September 30, 2013; and (c) \$40,000,000 as of the last day of each fiscal quarter ending on and after December 31, 2013.	

**EXHIBIT A TO  
COMPLIANCE CERTIFICATE**

A. United States Patents

Title	Application Filing Date	Issue Date	Patent No.	Owner

B. United States Patent Applications

Title	Application Filing Date	Application Serial No.	Owner

C. Foreign Patents

Country or Jurisdiction	Title	Application Filing Date	Issue Date	Patent No.	Owner

D. Foreign Patent Applications

Country or Jurisdiction	Title	Filing Date	Application No.	Owner

E. Patent Licenses

[Describe]

F. United States Copyright Registrations

Copyright	Registration Date	Registration No.	Owner

G. Foreign Copyrights



Country or Jurisdiction	Copyright	Registration Date	Registration No.	Owner

H. Copyright Licenses  
[Describe]

I. United States Trademarks

Mark	Registration Date	Registration No.	Owner

J. United States Trademark Applications

Mark	Application Filing Date	Serial No.	Owner

K. United States Common Law Trademarks

Mark	Owner

L. Foreign Trademarks

Country or Jurisdiction	Mark	Registration Date	Registration No.	Owner

M. Trademark Licenses  
[Describe]

N. Trade Secrets  
[Describe category]

O. Domain Names  
[Describe]

P. Proprietary Computer Software  
[Describe]

## Schedule 1.1 – Pricing Schedule

### PRICING SCHEDULE

<b>Applicable Margin</b>	<b>Level I Status</b>	<b>Level II Status</b>	<b>Level III Status</b>
<i>LIBOR Rate Loan</i>	1.25%	1.50%	1.75%
<i>Alternate Base Rate Loan</i>	(0.250)%	0.00%	0.25%

References to Sections and the Credit Agreement refer to the Credit Agreement to which this Schedule is attached, and Sections therein. For the purposes of this Schedule, the following terms have the following meanings, subject to the final paragraph of this Schedule:

“Financials” means the annual or quarterly financial statements of the Borrower delivered pursuant to Section 5.1(a) or (b).

“Level I Status” exists at any date if, as of the last day of the fiscal quarter of the Borrower referred to in its most recent financial statement, the Consolidated Cash Flow Leverage Ratio is less than 1.00 to 1.00.

“Level II Status” exists at any date if, as of the last day of the fiscal quarter of the Borrower referred to in its most recent financial statements, the Consolidated Cash Flow Leverage Ratio is less than 1.50 to 1.00 and is greater than or equal to 1.00 to 1.00.

“Level III Status” exists at any date if, as of the last day of the fiscal quarter of the Borrower referred to in its most recent financial statements, the Consolidated Cash Flow Leverage Ratio is greater than or equal 1.50 to 1.00.

“Status” means either Level I Status, Level II Status or Level III Status.

The Applicable Margin shall be determined in accordance with the foregoing table based on the Borrower’s Status as reflected in the then most recent financial statements. Adjustments, if any, to the Applicable Margin shall be effective from and after the first day of the first month immediately following the date on which the delivery of such financial statements is required until the first day of the first month immediately following the next such date on which delivery of such financial statements of the Borrower is so required. If the financial statements (the “initial Financials”) on which a determination of the Status are restated (the “restated Financials”), and as a result the Applicable Margin based on the initial Financials would have been determined by reference to a different Status, then on the first day of the first month immediately following delivery to the Bank of such restated Financials either (i) the Borrower shall pay additional interest, determined by reference to such different Status if such different Status is at a higher Status than the Status determined by reference to the initial Financials, or (ii) the Bank shall credit the Borrower

for the additional interest paid to the Bank as determined by reference to such different Status if such different Status is at a lower Status than the Status determined by reference to the initial Financials. If the Borrower fails to deliver the financial statements to the Bank at the time required pursuant to Section 5.1, then the Applicable Margin shall be the highest Applicable Margin set forth in the foregoing table until five days after such financial statements are so delivered. Subject to the preceding sentence, from and after the date of the Credit Agreement to and including the first day of the first month immediately following the delivery of financial statements for the fiscal quarter ending on September 30, 2012, the Status shall be Level I Status.

Sch 1.1-2

## Schedule 4.7 – Environmental Compliance

None\*

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\*Universal Electronics Inc. and its Subsidiaries lease its real property and thus are obligated under the respective leases for environmental compliance under standard provisions contained within the leases. Such provisions are customary for leases of this nature.

Sch 4.7-1

## Schedule 4.18 – Subsidiaries\*

### **UNIVERSAL ELECTRONICS INC. SUBSIDIARIES**

Universal Electronics BV (The Netherlands)<sup>RS</sup>

### **UNIVERSAL ELECTRONICS BV SUBSIDIARIES**

One For All Argentina SRL (Argentina) – 95.92% Universal Electronics BV; 4.08% Universal Electronics Inc.

One For All France S.A.S. (France)

One For All GmbH (Germany)

One For All Iberia SL (Spain)

One For All UK, Ltd. (England and Wales)

Ultra Control Consumer Electronics GmbH (Germany)

Universal Electronics Italia S.R.L. (Italy)

UEI Hong Kong Private Limited (Hong Kong)<sup>RS</sup>

UEI Hong Kong Holdings Co Private Limited (Hong Kong)

Universal Electronics Holdings, LLC

UEI Brasil Controles Remotos Ltda. – 99% Universal Electronics BV; 1% Universal Electronics Holdings, LLC

### **UEI HONG KONG PRIVATE LIMITED SUBSIDIARIES**

UE Singapore Private Limited Ltd. (Republic of Singapore)

Enson Assets Limited (British Virgin Islands)<sup>RS</sup>

### **UEI HONG KONG HOLDINGS CO PRIVATE LIMITED SUBSIDIARIES**

Universal Electronics (Shenzhen) LLC (Republic of China)

### **UE SINGAPORE PRIVATE LIMITED. LTD. SUBSIDIARIES**

UEI Electronics Private Limited (India) – 99% UE Singapore Private Limited Ltd.; 1% Universal Electronics Inc.

### **ENSON ASSETS LIMITED SUBSIDIARIES**

Gemstar Polyfirst Limited (Hong Kong)

C. G. Technology Limited (Hong Kong)

C. G. Development Limited (Hong Kong)<sup>RS</sup>

CG Group Limited (British Virgin Islands)

### **C. G. DEVELOPMENT LIMITED SUBSIDIARIES**

Gemstar Technology (China) Co. Limited (PRC)<sup>RS</sup>

Gemstar Technology (Yasngzhou) Co. Limited (PRC)<sup>RS</sup>

Gemstar Technology (Quinzhao) Co. Limited (PRC)<sup>RS</sup>

UEI Cayman Inc. (Cayman Islands)

### **CG GROUP LIMITED SUBSIDIARIES**

C. G. Timepiece Limited (Hong Kong)

CG Asia Limited (British Virgin Islands)

\* Subsidiary is 100% owned by its parent unless otherwise set forth herein

<sup>RS</sup> Restricted Subsidiary

**Schedule 6.10 – Investments**

**None**

Sch 6.10-1

**Schedule 6.11 – Indebtedness**

**None**

Sch 6.11-1

**Schedule 6.12 – Liens**

**None**

Sch 6.12-1



## Schedule 6.13 – Contingent Obligations

**None\***

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\* From time to time, Borrower has guaranteed the performance of its wholly-owned subsidiary Universal Electronics BV to customers of Universal Electronics BV for the sale, service and warranting of products sold by Universal Electronics BV to its customers.

Sch 6.13-1

**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 (Qinzhou) 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)

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 14, 2013, 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, 2012. 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, File No. 333-149926, effective March 27, 2008, and No. 333-175345, effective July 5, 2011).

/s/ Grant Thornton LLP

Irvine, California  
March 14, 2013

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 14, 2013

/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 14, 2013

/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, 2012 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

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Paul D. Arling

Chief Executive Officer

March 14, 2013

**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, 2012 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

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Bryan M. Hackworth  
Chief Financial Officer  
March 14, 2013