

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, 1996

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 33-0204817  
(STATE OR OTHER JURISDICTION (I.R.S. EMPLOYER  
OF INCORPORATION OR ORGANIZATION) IDENTIFICATION NO.)

1864 ENTERPRISE PARKWAY WEST 44087  
TWINSBURG, OH (ZIP CODE)  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (216) 487-1110

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:  
COMMON STOCK, PAR VALUE \$.01 PER SHARE  
(TITLE OF CLASS)  
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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   
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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.

The aggregate market value of the Registrant's outstanding common stock  
held by non-affiliates of the Registrant on February 28, 1997, determined using  
the per share closing sale price thereof on the National Market of The Nasdaq  
Stock Market of \$5.25 on that date, was approximately \$31,978,469.

As of February 28, 1997, 6,289,308 shares of Common Stock, par value  
\$.01 per share, of the Registrant were outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive Proxy Statement for its 1997  
Annual Meeting of Stockholders to be held on May 28, 1997 are incorporated by  
reference into Part III of this Form 10-K.

Except as otherwise stated, the information contained in this Form 10-K is as  
of December 31, 1996.

UNIVERSAL ELECTRONICS INC.  
 ANNUAL REPORT ON FORM 10-K  
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

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## PART I

## ITEM 1. BUSINESS

## BUSINESS OF UNIVERSAL ELECTRONICS INC.

Universal Electronics Inc. was incorporated under the laws of Delaware in 1986 and began operations in 1987. The principal executive offices of the Company are located at 1864 Enterprise Parkway West, Twinsburg, Ohio 44087, and its telephone number is (216) 487-1110. As used herein, the terms "Universal" and the "Company" refer to Universal Electronics Inc. and its subsidiaries unless the context indicates to the contrary.

Universal develops and markets easy-to-use, preprogrammed universal remote controls principally for home video and audio entertainment equipment. The Company sells its remote control products domestically and internationally under the One For All(R) brand name. The Company also sells its remote control products and proprietary technologies to private label customers, original equipment manufacturers ("OEMs"), and companies involved in the subscription broadcast industry. The Company also develops and markets a line of home safety and automation products under the Eversafe(R) brand name. Sales of home safety and automation products have been primarily focused on the domestic retail hardware, food and drug, and mass marketing distribution channels.

## GENERAL BUSINESS INFORMATION

Universal has developed a broad line of easy-to-use, preprogrammed universal remote control products which are marketed principally for home video and audio entertainment equipment through various channels of distribution, including domestic retailers, international retailers, private label customers, OEMs, cable operators and others in the subscription broadcast industry. The Company's remote controls, capable of controlling from one to eight video and audio devices, are purchased primarily by consumers who seek to replace lost or broken remotes or to eliminate multiple remotes. The Company believes that its universal remote controls can operate virtually all infrared remote controlled TVs, VCRs, cable converters, CD players, audio components and satellite receivers, as well as most other infrared remote controlled devices worldwide.

The Company believes its remote control products incorporate certain significant technological advantages. First, the Company has compiled an extensive library of over 60,000 infrared codes, which the Company believes is larger than any other existing library of infrared codes for the operation of home video and audio devices sold worldwide. The Company's library is updated on a daily basis to add infrared codes used in newly introduced video and audio devices. Second, the Company's proprietary software and know-how permit infrared codes to be compressed before being loaded into a Read Only Memory ("ROM"), Random Access Memory ("RAM") or an electronically erasable ROM ("E2") chip. This provides significant cost and space efficiencies that enable the Company to include more codes in the limited memory space of the chip than are included in similarly priced products of competitors. Third, the Company has developed a patented technology that provides the capability to easily upgrade the memory of the remote control by adding codes from its library that were not originally included. This technology utilizes both RAM and E2 chip technologies.

## PRODUCTS

## Universal Remote Controls

The Company's family of universal remote controls covers a broad spectrum of suggested prices and performance capabilities. The Company sells its remote controls through a number of retailers and service centers under the One For All brand name and to cable operators under the Uniwand(R) brand name.

In addition, the Company sells customized products to retailers, consumer electronic accessory suppliers, private label customers, OEMs, cable operators, and others in the subscription broadcast industry for resale under their respective brand names. Under the One For All brand name, the Company markets remote controls capable of controlling from one to eight video and audio devices, including, but not limited to, TVs, VCRs, cable converters, CD players, satellite receivers, laser disc players, amplifiers, tuners, turntables, cassette players, digital audio tape players, and surround sound systems.

Each of the Company's remotes is designed to simplify the use of video and audio devices. To appeal to the mass market, the number of buttons are minimized to include only the most popular functions. The Company's universal remotes are also designed for ease of initial set-up. For most of the Company products, the consumer simply inputs a three-digit code for each video or audio device to be controlled. Each remote contains either a RAM, a ROM, or a combination of ROM and E2 chips. The RAM and the ROM and E2 combination products allow the remote to be upgraded with additional codes.

The Company introduced its first product, the One For All, in 1987. In the United States and European markets, One For All brand name products accounted for 57.3%, 49.5%, and 56.5% of the Company's sales for the years ended December 31, 1996, 1995 and 1994, respectively.

The One For All product line also includes an "upgradable" line of remote control products. These products are capable of controlling five to eight video and audio devices. Each of these products utilizes the Company's E2 technology, contains the Company's patented upgrade technology and, as a result of other improvements, retains memory while changing batteries which eliminates the inconvenience experienced by consumers of having to set-up the remote control each time the batteries are changed.

In the private label, OEM and subscription broadcast markets, the Company sells its universal remote controls and proprietary technologies to consumer electronic accessory suppliers and selected retailers for resale under their respective brand names. The line of products the Company sells under private label and to OEMs is similar in breadth to the One For All line. By providing its remote control technology in many forms, including finished remote control products, integrated circuits, or custom software packages, the Company can meet the needs of these customers, enabling those who manufacture or subcontract their manufacturing requirements to use existing sources of supply and more easily incorporate the Company's technology. This line includes a product which enhances the features of electronic program guides by enabling consumers to record programs for future viewing after identifying their selection in the electronic program guide.

The Company also offers a variety of remote control products designed for the cable industry, which are sold to multiple system operators ("MSOs") under the Uniwand(R) brand name and under private labels. These remotes include the features important to cable operators and are customized to include the cable operators' brand names and logos as well as special dedicated tune-in keys for selected premium channels such as HBO(R), Showtime(R) and Encore(R). Such keys provide the cable operator the added value of built-in advertising for continued use of the subscription channels.

#### New Universal Remote Control Products

During 1996, the Company focused its efforts on improving the consumer appeal and competitiveness of its products by redesigning its product line to feature sleek new body styles, streamlined keypad layouts and advanced features in response to newly developed technologies and audio and video devices. These new products, developed to meet the specifications and needs of all of its customers including retail, private label, OEM, and cable, were introduced during the second and third quarters of 1996 and are intended to replace the Big Easy product line. In addition, the Company incorporated its advanced radio frequency technology, called The Finder(TM), into one of these new five device remote controls. This technology allows the user to locate the remote control at the push of a button.

## Home Safety and Automation Products

Throughout 1996, the Company continued efforts to revamp its home safety and automation product line and continued to focus its sales efforts to the retail hardware, food and drug, and mass-marketing distribution channels. During the year, the Company introduced a universal garage door opener which utilizes RF technology and is targeted to those consumers needing to replace a lost or broken garage door opener.

### DISTRIBUTION AND CUSTOMERS

The Company's products are sold to a wide variety of customers in numerous distribution channels. In the United States, its products are sold to retailers and service centers under the One For All brand name. Internationally, the Company sells remotes under the One For All brand name to retailers and to other customers under private labels through its foreign subsidiaries and distributors. The Company also sells private label remote controls to consumer electronics accessory manufacturers and selected retailers for resale under their respective brand names. In addition, the Company sells remote control products and its proprietary technologies to OEMs for packaging with their products. The Company also sells its products under the Uniwand brand name, as well as customized remotes, to cable operators for sale or rental to their subscribers. The Eversafe line of products is sold to retailers in the United States such as hardware cooperatives, mass merchandisers, and home centers.

For the year ended December 31, 1996, sales to Wal-Mart and Radio Shack accounted for approximately 12.4% and 10.6%, respectively, of the Company's net sales for the year. While management considers the Company's relationships with each of its customers to be good, the loss of any one key customer could have a material adverse effect on the Company's results of operations. The Company does not have long-term purchase contracts with any of its customers and most of the Company's customers operate on a purchase order basis.

#### United States Retail

During 1996, the Company continued its strategy to increase the number of different One For All products carried by its retail customers. The Company also developed and implemented unique promotions for each retailer to enable them to differentiate the One For All products carried in their stores. Prior to 1995, the Company utilized its own employees to effect the sales of its One For All branded products to retailers in the United States. As a part of its restructuring in 1995, the Company replaced most of its employee retail sales force with third-party sales representatives.

#### International Retail

Throughout 1996, the Company continued its sales and marketing efforts in Australia, Canada, Mexico and selected countries in Europe, East Asia and South America. As part of these efforts, the Company has two foreign subsidiaries, One For All B.V., a Netherlands company, and One For All GmbH, established in Germany. During 1996, the operations of One For All (UK) Ltd., a third subsidiary, established in the United Kingdom were substantially reduced and the Company began using a third party distributor in the United Kingdom in an effort to reduce costs and expand distribution. In addition to these subsidiaries, the Company utilizes third party distributors in various European and South American countries and in Mexico and Canada.

#### Private Label

As a supplier of technology to private label customers, the Company is able to achieve greater distribution of its proprietary technology in the retail market, both by distributing to additional retail outlets and by obtaining further penetration in certain retail outlets also selling the Company's branded products.

During 1996, the Company continued efforts to improve product cycles and planning to better meet the needs of its customers.

#### Cable

During 1996, the Company provided MSOs with customized remote controls to complement services offered to their customers, such as the interactive electronic programming guide. The Company also sells its remotes to manufacturers of cable converters for resale with their products. The Company is continuing to expand its marketing efforts to other MSOs providing cable services in Canada, in Australia and throughout Europe. In addition, the Company will focus on improving the manufacturing process to more efficiently and timely provide products to these cable customers.

#### OEM

During 1996, the Company continued pursuing a further penetration of the OEM market in the Far East and Europe. Since 1993, the Company has been working with a major Japanese supplier of dedicated remote controls to large consumer electronics manufacturers, which the Company believes has enabled it to reach a much larger audience of OEM customers with whom the Company does business.

#### CONSUMER SERVICE AND SUPPORT

Throughout 1996, the Company continued its strategy to review its customer support program. In 1996, the Company continued to include clearly written user instruction guides and a limited 90-day warranty with all product offerings. The Company, however, modified its service "help line" such that the majority of calls received are directed through its automated "conversant" system. Live agent help is still available in certain circumstances. Furthermore, the Company discontinued its "Double Your Money Back Guarantee" on new product offerings in 1996. In 1997, the Company will continue to review these programs to determine their value in enhancing and improving the sales of the Company's products. As a result of this continued review, some or all of these programs may be modified or discontinued in the future and new programs may be added.

#### RAW MATERIALS AND DEPENDENCE ON SUPPLIERS

The Company utilizes third-party manufacturers in the Far East, Mexico and the United States to produce its remote controls and home safety and automation products. Kimex Electronics, Limited ("Kimex"), located in the Republic of Korea, manufactured approximately 29%, 34% and 20% of the Company's remote control products during 1996, 1995 and 1994, respectively. The Company has agreed in principle to exchange 24,000 shares of its Common Stock for a 15% equity interest in Kimex. The majority of Kimex's business is the manufacturing of the Company's products.

A manufacturer located in the People's Republic of China produced approximately 16%, 52% and 60% of the Company's remote control products during 1996, 1995 and 1994, respectively.

With the introduction of the new product line in 1996, the Company began a program of diversification of suppliers and maintenance of duplicate tooling for its products. This program has allowed the Company to stabilize its source for products and negotiate more favorable terms with its suppliers.

The Company generally uses standard parts and components, which are available from multiple sources. The Company has, since 1994, attempted to reduce its dependence on one supplier of integrated circuit chips for the purpose of reducing the potential for manufacturing and shipping delays and the need to maintain additional inventory of these component parts as safety stock by purchasing some of its chips from a variety of sources. However, the Company is still heavily dependent on one supplier of integrated circuit chips.

#### PATENTS, TRADEMARKS AND COPYRIGHTS

The Company owns a number of United States and foreign patents relating to its products and technology and has filed applications for other patents that are pending and has obtained copyright registration for various of its proprietary software and libraries of infrared codes. The lives of the Company's patents will continue for a variety of terms ranging from ten to 15 years. While the Company follows the practice of obtaining patents or copyright registration on new developments whenever advisable, in certain cases, the Company has elected common law trade secret protection in lieu of obtaining such protection. In the Company's opinion, engineering and production skills and experience are of more importance to its market position than are patents and copyrights. The Company further believes that none of its business is dependent to any material extent upon any single patent or trade secret or group of patents or trade secrets. The names of most of the Company's 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 a variety of terms ranging from ten to 20 years, which terms are renewable as long as the trademarks continue to be used. Management regularly renews those registrations deemed by them to be important to the Company's operations.

#### SEASONALITY

The majority of the Company's sales are to retailers either directly under its One For All brand name or indirectly through its private label and OEM customers. The Company has, accordingly, experienced stronger demand for its products in the third and fourth calendar quarters than in the first half of the year as retailers purchase remote controls prior to the holiday selling season. Retail, private label and to a lesser degree OEM customers generally commit to carry new and existing products for the year in the first and second quarters and initial manufacturing and deliveries take place in the second and third quarters. Generally, sales to private label customers peak in the third quarter and branded product sales to retailers peak in the fourth quarter. See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-NOTE 16" for further details regarding the quarterly results of the Company.

#### BACKLOG

As of December 31, 1996, the Company had backlog orders representing approximately \$14.7 million in net sales. This reflects an increase in backlog orders of approximately 38.5% since December 31, 1995, when the Company had backlog orders representing approximately \$10.6 million in net sales. Although the Company believes current orders to be firm and expects that substantially all of the backlog will be shipped in 1997, there can be no assurance that such orders will be shipped. The Company believes that backlog is not a meaningful indicator of its future performance.

#### COMPETITION

The Company's principal competitors in the retail and private label markets for universal remote controls are currently RCA and Sony. The Company's principal competitors in the OEM market are the original equipment manufacturers themselves. The market for home safety and automation devices is fragmented, consisting of a few large and many small competitors operating in relatively small markets. The Company has a small share of the home safety and automation market. The Company competes in its markets on the basis of product quality, product features, price, and customer and consumer support. The Company believes that it will need to continue to introduce new and innovative products to remain competitive and to obtain and retain competent personnel to successfully accomplish its future objectives. Certain of the Company's competitors have significantly larger financial, technical, marketing and manufacturing resources than the Company, and there can be no assurance that the Company will remain competitive in the future.

#### ENGINEERING, RESEARCH AND DEVELOPMENT

During 1996, the Company's engineering efforts focused on modifying existing products and technology to improve their features and lower their costs, and to develop measures to protect the Company's proprietary technology and general know-how. In addition to taking steps in an attempt to control costs through the more efficient carrying out of its activities and systematizing its operations, the Company continued to update its library of infrared codes daily to include codes for features and devices newly introduced both in the United States and internationally and for uncommon devices. New infrared codes are identified by the Company through many of its activities. The Company also continually explores ways to improve its software to preprogram more codes into its memory chips and to ease the upgrading of its remote control products.

Also during 1996, the Company's research and development efforts continued to focus on the development of new and innovative remotes with enhanced capabilities, as well as new applications of remote control technology. Work on new applications to be used within the information superhighway continued as the Company increased the number of customers with whom it worked in this area.

The Company is also exploring various opportunities to supply remote controls for the operation of additional electronic and other devices in the home using infrared signals, as well as combinations of infrared signals, radio frequencies, household electrical circuits and telephone lines. Company personnel are actively involved with the Electronic Industries Association and the International Electrotechnical Commission, which are in the process of setting standards for infrared, radio frequency, power line, telephone and cable communications and networking in the home. There can be no assurance that any of the Company's research and development projects will be successfully completed.

The Company's engineering, research and development facility, which moved to Cypress, California in March 1997, had approximately 54 full-time employees at December 31, 1996. The Company's expenditures on engineering, research and development in 1996, 1995 and 1994 were \$2.6 million, \$2.3 million, and \$3.4 million, respectively, of which approximately \$288,000, \$268,000, and \$461,000, respectively, were for research and development.

#### ENVIRONMENTAL MATTERS

The Company believes it has materially complied with all currently existing federal, state and local statutes and regulations regarding environmental standards and occupational safety and health matters to which it is subject. During the years ended December 31, 1996, 1995 and 1994, 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 the Company's 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 which could have a material adverse effect upon the capital expenditures, earnings or financial condition of the Company.

#### EMPLOYEES

At December 31, 1996, the Company employed approximately 254 employees, of whom 54 were in engineering, research and development, 34 in sales and marketing, 61 in consumer service and support, 83 in operations and warehousing and 22 in executive and administrative staff. None of the Company's employees is subject to a collective bargaining agreement or is represented by a union. The Company considers its employee relations to be good.



## FOREIGN OPERATIONS

Financial information relating to the Company's foreign operations for the years ended December 31, 1996, 1995 and 1994, is included in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-NOTE 13".

## 1995 RESTRUCTURING

In January 1995, the Company restructured the way in which its domestic retail sales are made. In the first quarter of 1995, the Company began phasing out most of its employee retail sales force and began utilizing third party sales representatives to effect the sale of the Company's branded remote control products to retailers throughout the United States. Each of the sales representatives was assigned a given territory and was asked to sign an agreement which set forth the terms and conditions of appointment. The Company believes that the terms and conditions of such agreements were standard for the industry. The terminated employees received a severance package which included a combination of salary, commission when applicable, and all employee benefits received during the normal course of employment for a period of time ranging from one to four months based on years of service. In addition, the Board of Directors of the Company replaced the President and Chief Executive Officers on January 24, 1995. The former President and Chief Executive Officer's severance package included a combination of salary and all employee benefits received during the normal course of employment until December 31, 1995. As a result of this restructuring, the Company recorded a pre-tax charge of approximately \$977,000 to net income in the first quarter of 1995.

## ITEM 2. PROPERTIES

The Company's headquarters, which was purchased in February 1996, is located in Twinsburg, Ohio. The Company utilizes the following office and warehouse facilities:

Location	Purpose or Use	Square Feet	Status
-----	-----	----	-----
Twinsburg, Ohio	Corporate headquarters and warehouse	57,600	Owned
Cypress, California	Engineering, research and development	30,768	Leased, expires December 31, 1998
Enschede, Netherlands	European headquarters and consumer support	10,000	Leased, expires upon 6 months notice

In March 1997, the Company entered into a sublease for its engineering, research and development facilities to replace the facilities located in Anaheim, California. The Company believes its existing facilities will be adequate to meet the Company's needs for the foreseeable future. See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-NOTE 10" for additional information regarding the Company's obligations under leases.

## ITEM 3. LEGAL PROCEEDINGS

On November 22, 1993, the Company filed an action against the United States, Universal Electronics Inc. v. The United States, Case No. 93-11-00740, with the United States Court of International Trade seeking a ruling regarding the correct classification under the United States Harmonized Tariff Schedule with respect to duties levied in connection with the importation of certain of the Company's

multi-brand remote control products. Trial was completed in the second week of January 1996 and on March 7, 1996, judgment was entered for the United States. On April 30, 1996, the Company filed an appeal with the United States Court of Appeals for the Federal Circuit and oral argument was heard on January 7, 1997. A decision is expected sometime in the second or third quarter of 1997. Throughout this litigation (including the pendency of the appeal), the Company has been paying duties at the higher rate claimed by the government.

On July 26, 1995, an ex-employee, Robert D. Gordon, filed suit against the Company and two of its employees in the Court of Common Pleas in Summit County, Ohio, Robert D. Gordon v. Universal Electronics Inc., et. al., Case No. CV 95 07 2602, alleging age discrimination in employment, wrongful discharge and conspiracy to discriminate. On August 6, 1996, the Company's Motion for Summary Judgment was granted. In September 1996, Gordon filed a notice of appeal in the Court of Appeals, Ninth Appellate District, Summit County, Ohio. Briefing is in the process of being completed and filed. The Company will continue to vigorously defend against the appeal.

On December 20, 1995, Jasco Products Co., Inc. filed a breach of contract action against the Company in the U.S. District Court for the Western District of Oklahoma, Jasco Products Co., Inc. v. Universal Electronics Inc., Case No. CIV-95-1988T, alleging that the Company is in breach of warranties with respect to product delivered by the Company, has failed to return certain tooling and must continue providing telephonic customer support. On January 5, 1996, the Company filed a breach of contract action against Jasco Products Co., Inc. in the U.S. District Court for the Northern District of Ohio, Universal Electronics Inc. v. Jasco Products Co., Inc., Case No. 5:96CV0029, alleging that Jasco has failed to pay for product delivered to and received by them. In the first quarter of 1996, these two cases were consolidated, with the Ohio matter being transferred to Oklahoma. In January 1997, the Company amended its complaint against Jasco by adding allegations that Jasco defrauded the Company in connection with and in addition to breaching its agreement with the Company. Throughout this litigation, the Company has vigorously denied liability. Jasco has admitted owing monies to the Company, but it seeks to offset these amounts against amounts which it believes to be owed it by the Company.

On August 7, 1996, Sentry Switch Inc. filed suit against the Company in the Court of Common Pleas, Hamilton County, Ohio, Sentry Switch Inc. v. Universal Electronics Inc., Case No. A 96-04394, alleging that the Company has failed to pay for product delivered to and received by the Company. The Company filed its answer denying these claims and will vigorously defend against them.

As is typical in the Company's industry and the nature and kind of business in which the Company is engaged, from time to time, various claims, charges and litigation are asserted or commenced by third parties against the Company 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. In the opinion of management, final judgments, if any, which might be rendered against the Company in potential or pending litigation, would not have a material adverse effect on the Company's financial condition or results of operations. Moreover, management believes that the Company's products do not infringe any third parties' patent or other intellectual property rights.

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

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

No matters were submitted to a vote of security holders during the fourth quarter of the Company's fiscal year through the solicitation of proxies or otherwise.

## EXECUTIVE OFFICERS OF THE REGISTRANT\*

The following table sets forth certain information concerning the executive officers of the Company as of February 28, 1997.

NAME ----	AGE ---	POSITION -----
Paul D. Arling	34	Senior Vice President, Chief Financial Officer
Richard A. Firehammer, Jr.	39	General Counsel and Secretary
David M. Gabrielsen	39	Chairman, President and Chief Executive Officer
Mark S. Kopaskie	39	Executive Vice President and Chief Operating Officer
Dennis P. Mansour	44	Corporate Controller
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\*Included pursuant to Instruction 3 to Item 401(b) of Regulation S-K.

Paul D. Arling has been Senior Vice President and Chief Financial Officer of the Company since May 1996. From 1993 through May 1996, he served in various capacities at LESCO, Inc. (a manufacturer and distributor of professional turf care products) with the most recent being Acting Chief Financial Officer. Prior to LESCO, he worked for Imperial Wallcoverings (a manufacturer and distributor of wallcovering products) as Director of Planning and The Michael Allen Company (a strategic management consulting company) where he was employed as a management consultant. He obtained a B.S. degree from the University of Pennsylvania in 1985 and an MBA from the Wharton School of the University of Pennsylvania in 1992.

Richard A. Firehammer, Jr., Esq. has been General Counsel of the Company since October 1993 and Secretary since February 1994. From November 1992 to September 1993, he was associated with the Chicago, Illinois law firm, Shesky & Froelich, Ltd. From 1987 to 1992, he was with the law firm, Vedder, Price, Kaufman & Kammholz in Chicago, Illinois. He is admitted to the Bars in the State of Illinois and the State of Ohio. Mr. Firehammer is also a certified public accountant. He received a B.S. degree from Indiana University and a J.D. degree from Whittier College School of Law.

David M. Gabrielsen has been President and Chief Executive Officer of the Company since January 1995, and prior to that, he served as the Company's Executive Vice President and Chief Operating Officer, a position he assumed upon joining the Company in December 1994. From 1989 to December 1994, Mr. Gabrielsen served in various capacities at Mr. Coffee, Inc. (a manufacturer of home coffee and tea makers and filters), including Executive Vice President and Chief Operating Officer. He received a BBA degree from Siena College.

Mark S. Kopaskie has been Executive Vice President and Chief Operating Officer of the Company since December 1995 and prior to that, he served as the Company's Senior Vice President of Operations, a position he assumed upon joining the Company in February 1995. From December 1991 to January 1995, Mr. Kopaskie served in various capacities at Mr. Coffee, Inc., most recently as its Senior Vice President, Operations. From March 1990 to November 1991 he served as a Principal and President and

Chief Executive Officer of Morrison Industries, L.P. (a manufacturer and distributor of truck parts). From 1984 to February 1990, Mr. Kopaskie was a Project Manager for OC Birdair (a specialty construction joint venture between Owens Corning Fiberglass Corp. and Chemical Fabrics Corporation). He received a B.S. degree from Clarkson University.

Dennis P. Mansour, CPA has been the Corporate Controller of the Company since August, 1995. From July 1990 to July 1995, he served as Corporate Controller and Treasurer of HMI Industries, Inc. (a manufacturer of consumer floor care products) Prior to joining HMI, Mr. Mansour was with Coopers & Lybrand, certified public accountants, in various capacities. Mr. Mansour received a BBA degree from the University of Michigan.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock trades on the National Market of The Nasdaq Stock Market under the symbol "UEIC".

The following table sets forth, for the periods indicated, the high and low last reported sale prices for the Company's common stock, as reported on the National Market of The Nasdaq Stock Market:

	1996		1995	
	High	Low	HIGH	LOW
First Quarter	\$11-3/4	\$7-3/8	\$5-1/4	\$3-7/8
Second Quarter	12	9-3/8	7-5/8	4
Third Quarter	11-1/2	5-7/8	8-1/4	6-7/8
Fourth Quarter	6-1/4	5-3/8	8-1/8	7

Stockholders of record on December 31, 1996 numbered 277.

The Company has never paid cash dividends on its common stock and does not intend to pay cash dividends on its common stock in the foreseeable future. The Company intends to retain its earnings, if any, for the future operation and expansion of its business. In addition, the terms of the Company's revolving credit facility limit the Company's ability to pay cash dividends on its common stock. See "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS-LIQUIDITY AND CAPITAL RESOURCES" and "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-NOTE 5."

## ITEM 6.

## SELECTED CONSOLIDATED FINANCIAL DATA

	YEAR ENDED DECEMBER 31,				
	1996 -----	1995 -----	1994 -----	1993 -----	1992 -----
	(in thousands, except per share data)				
Net sales	\$ 98,589	\$ 105,090	\$ 95,939	\$ 89,001	\$ 50,764
Operating income (loss)	\$ (4,098)	\$ 1,179	\$ (18,232)	\$ 7,673	\$ 5,362
Net income (loss)	\$ (2,295)	\$ 320	\$ (12,833)	\$ 4,899	\$ 2,623
Net income (loss) per share	\$ (0.34)	\$ 0.05	\$ (1.91)	\$ 0.83	\$ 0.74
Weighted average common stock and common stock equivalents outstanding	6,661 =====	6,778 =====	6,708 =====	5,884 =====	3,186 =====
Unit sales	15,093	15,612	12,732	7,932	3,905
Selling, General and Administrative as a percent of sales	29.0%	27.3%	36.3%	33.9%	34.5%
Gross margin	24.9%	29.3%	17.3%	42.5%	45.1%
Net income to sales	(2.3%)	.30%	(13.4%)	5.5%	4.7%
Return on average assets	(3.5%)	0.4%	(17.1%)	9.8%	14.7%
Working capital	\$ 36,515	\$ 43,996	\$ 45,433	\$ 60,433	\$ 5,368
Ratio of current assets to liabilities	4.4	3.2	2.8	6.1	1.3
Total assets	\$ 59,451	\$ 70,105	\$ 75,270	\$ 74,863	\$ 24,901
Long-term debt	\$ 3,183	-	-	-	-
Stockholders' equity	\$ 45,627	\$ 50,238	\$ 49,803	\$ 62,831	\$ 6,623
Book value per share	\$ 7.16	\$ 7.44	\$ 7.39	\$ 9.47	\$ 2.31
Ratio of liabilities to liabilities and stockholders' equity	23.3%	28.3%	33.8%	16.1%	73.4%

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

RESULTS OF OPERATIONS

The following table sets forth the statement of operations data of the Company expressed as a percentage of net sales for the periods indicated.

	Year Ended December 31,		
	1996	1995	1994
Net sales	100.0%	100.0%	100.0%
Cost of sales	74.0	70.7	70.5
Inventory write-down	1.1	--	12.2
Gross profit	24.9	29.3	17.3
Total operating and administrative expenses	29.0	27.3	36.3
Restructuring expense	--	0.9	--
Operating income (loss)	(4.1)	1.1	(19.0)
Interest expense (income)	0.8	1.0	1.0
Other expense (income)	(0.3)	(0.4)	(0.1)
Income (loss) before income taxes	(4.6)	0.5	(19.9)
Provision (benefit) for income taxes	(2.3)	0.2	(6.5)
Net income (loss)	(2.3)%	0.3%	(13.4)%

Year Ended December 31, 1996 Compared to Year Ended December 31, 1995

Net sales in 1996 were \$98.6 million compared to \$105.1 million 1995. During 1996, sales of branded remote control products in the United States accounted for approximately 34.3% of total sales compared to 33.3% in 1995. Revenues for sales of domestic cable and OEM products were approximately 29.4% of total revenues for 1996, compared to 36.1% in 1995. Private label sales during 1996 were approximately 10.7% and 10.6% in 1996 and 1995, respectively. International sales accounted for approximately 23.0% of the total 1996 revenues compared to 17.7% in 1995. Revenues generated from Eversafe products accounted for approximately 2.6% of total 1996 revenues compared to 2.3% in 1995. The decrease in sales of cable and OEM products as a percentage of total net sales was primarily due to the anticipated loss of two customers in the first quarter of the year and a delay in the introduction of the new line of cable remotes until the fourth quarter of 1996. Competitive and consumer pricing pressures throughout 1996 resulted in modest increases for the domestic branded remote revenues. The international revenues improved both from volume increases as well as changes in product mix towards the higher-end remotes with expanded features and higher average selling prices.

Domestic net unit sales of all remote control products decreased 5.5% when compared to 1995 and represented 86.6% of 1996 net unit sales. This decrease was a result of a decrease in the cable and

OEM unit sales which were down by 11.5% due to the loss of the two customers as was discussed in the preceding paragraph. International unit sales in 1996 increased by 17.0% compared to 1995 and amounted to 11.2% of the total unit sales. The increase in international unit sales primarily reflects an increase in product category awareness. Unit sales for Eversafe products during 1996 were approximately the same as in 1995.

As expected, the Company's average domestic retail sales price decreased in 1996 primarily due to consumer demand for lower-priced remote controls, competitive pressures and the sales of lower-priced products that were subject to the 1994 write-down of slow moving inventory. Additionally, with the introduction of the new line of One for All branded remotes in June, special programs were developed to sell off the remaining inventories of the older products. The majority of the slow moving inventory subject to the 1994 write-down has now been disposed of and the Company believes the balance should be sold off during 1997.

The Company's gross profit margin in 1996 was 24.9% compared to a gross margin of 29.3% in 1995. Approximately 25% of the decrease was a result of a pre-tax charge of \$1.1 million associated with the write-down of certain microprocessors used in the One for All branded products. The Company decided to record the write-down after one of its key suppliers announced in December that a new line of lower cost and more efficient chips would be introduced in the third or fourth quarter of 1997. The disposition of slow moving inventory at little or no gross profit margin and the low margin special programs also contributed to the overall decrease in gross profit margin as compared to 1995. In addition to the factors discussed here, gross profit margin is affected by many factors including, among other things, competitive market pressures, shifts in product mix, fluctuations in manufacturing and freight costs, changes in customer mix and aggressive consumer promotions.

Selling, general and administrative expenses during 1996, excluding the 1995 first quarter restructuring charge of \$977,000, remained unchanged as compared to 1995 when as a percentage of sales, selling, general and administrative expenses increased to 29.0% in 1996 from 27.3% in 1995. The increase as a percent of sales is principally due to the lower net sales for the year. Advertising expenses increased by approximately \$1.1 million which were offset by cost reductions for legal expenses, rent and property taxes. Beginning in January 1995, the Company began a restructuring by phasing out its retail sales force and utilizing third party sales representatives to effect the sale of the Company's branded remote control products to retailers throughout the United States.

Interest expense decreased by \$282,000 in 1996 to \$768,000. This decrease is due to reduced borrowing under the Company's revolving letter agreement and the lower interest rate in effect for the year as a result of the new credit agreement entered into in November 1995. The Company recorded interest income of approximately \$44,000 and \$40,000 in 1996 and 1995, respectively.

The Company had an effective income tax rate for 1996 of 50.0%. This rate exceeded the 34% United States statutory rate as a result of the recognition of previously unrecorded deferred state income taxes and federal research and development tax credits.

Year Ended December 31, 1995 Compared to Year Ended December 31, 1994

Net sales in 1995 increased by 9.5% to \$105.1 million from \$95.9 million in 1994. The increase resulted primarily from a 22.6% increase in unit sales of remote control products over 1994. Of the Company's \$105.1 million of net sales in 1995, sales of branded remote control products in the United States accounted for approximately 33.3% compared to 40.0% in 1994; cable and OEM sales in the United States accounted for approximately 36.1% of sales compared to 23.4% in 1994; private label sales were approximately 10.6% of sales compared to 13.6% in 1994; international sales accounted for approximately 17.7% compared to 19.1% in 1994; and sales of Eversafe products accounted for approximately 2.3% compared to 3.9% in 1994. The decrease in sales of domestic branded remote



control products as a percentage of net sales was primarily due to competitive and consumer pricing pressures throughout the year and increases in private label, cable and OEM sales.

Domestic unit sales of all remote control products increased 27.1% compared to 1994 and represented 90.7% of 1995 net sales, while 1995 international unit sales decreased by 9.1% compared to 1994. The increase domestically primarily reflects an increase in product category awareness.

As expected, the Company's average sales price decreased in 1995 primarily due to consumer demand for lower-priced remote controls, competitive pressures and the sales of lower-priced products that were subject to the 1994 write-down of slow moving inventory. Approximately 85% of the slow moving inventory subject to the write-down was sold in 1995. The sales of these products improved the Company's cash position, however, the overall gross margin was negatively impacted by approximately \$1.4 million.

The Company's gross profit margin in 1995 was 29.3% compared to a pre-inventory write-down gross margin of 31.4% in 1994. Most of the decrease resulted from the disposition of the slow moving inventory at little or no gross profit margin. In addition to the above, gross profit margin is affected by many factors including, among other things, competitive market pressures, shifts in product mix, fluctuations in manufacturing and freight costs, changes in customer mix and aggressive consumer promotions.

Selling, general and administrative expenses decreased by 17.7% to \$28.7 million in 1995 from \$34.8 million in 1994. As a percentage of sales, selling, general and administrative expenses decreased to 27.3% in 1995 from 36.3% in 1994. The decrease primarily resulted from significant reductions in advertising expenditures and from restructuring of the Company's sales force and the consolidation of the Company's operating locations in the United States. Beginning in January 1995, the Company began to phase out its retail sales force and utilized third party sales representatives to effect the sale of the Company's branded remote control products to retailers throughout the United States. As a result of this restructuring, the Company's 1995 operating results include a charge of \$977,000.

The Company recorded \$1.0 million of interest expense for each of 1995 and 1994, primarily as a result of revolving line of credit borrowing made to fund its operating and working capital needs. The Company recorded interest income of approximately \$40,000 and \$70,000 in 1995 and 1994, respectively.

During 1995, the Company recorded other income of approximately \$376,000 compared to other income of approximately \$28,000 in 1994. The increase is due to favorable litigation settlements.

The Company had an effective income tax rate for 1995 of 41.4%. This rate exceeded the 34% United States statutory rate as a result of state and local income taxes, the effect of which was partially offset by the effect of foreign income taxes at lower rates.

#### LIQUIDITY AND CAPITAL RESOURCES

During 1995, the Company entered into a \$22 million revolving credit agreement with The Provident Bank. The interest rate on this credit agreement, which expires April 30, 1998, was The Provident Bank's prime rate (8.25% at December 31, 1996) minus three-quarter percent. In January 1997, this credit agreement was amended for the second time by modifying some of the financial covenants and adjusting the interest rate at which the Company borrows under the credit equal to the bank's prime rate plus one-quarter percent. Under the terms of this revolving credit facility, the Company's ability to pay cash dividends on its common stock is restricted and the Company is subject to certain financial covenants, restrictions on repurchase of Common Stock and other restrictions. Further, amounts available for borrowing under this credit facility are reduced by the outstanding balance of the Company's import letters of credit. The Company pays a commitment fee of a maximum rate of 1/8 of 1% per year on the unused portion of the credit line. The revolving credit

facility is secured by a pledge of the Company's accounts receivable, inventory, equipment, and general intangibles as collateral. At December 31, 1996 the Company's borrowing under this revolving credit facility approximated \$3.2 million. The Company believes that the amount available to it under this revolving credit facility should be sufficient to meet the planned operating needs of the Company during 1997.

Cash provided from operating activities was \$8.6 million for 1996 compared to \$7.7 million in 1995 and cash used for operating activities of \$13.4 million in 1994. In 1996, the primary contributors to the improved cash position were decreases in accounts receivable of approximately \$6.2 million and inventories of approximately \$7.9 million. During 1996, trade payables and accrued expenses were reduced by approximately \$3.3 million and the short-term portion of the Company's line of credit was reduced by \$6.1 million. The long-term portion outstanding on the Company's line of credit is the result of approximately \$2.0 million in financing for the February 1996 purchase of the Company's facility in Ohio, and the previously announced third quarter open market purchase of the Company's common shares for approximately \$2.6 million.

Capital expenditures in 1996, 1995 and 1994 were approximately \$3.4 million, \$2.8 million, and \$2.5 million, respectively. The Company has currently budgeted approximately \$2.3 million in capital expenditures for 1997.

The Company's working capital needs have typically been greatest during the third and fourth quarters when accounts receivable and inventories increase in connection with the fourth quarter holiday selling season. At December 31, 1996, the Company had \$36.5 million of working capital compared to \$44.0 million at December 31, 1995. The reduction in working capital is principally due to the decreases discussed above. The Company believes that internally generated cash, continued savings through the Company's restructuring efforts and funds available from its borrowing capacity will be sufficient to fund current business operations as well as anticipated growth at least through the end of 1997.

#### OUTLOOK

The Company's focus in 1997 is to continue to seek ways to increase its customer base worldwide, particularly in the areas of subscription broadcasting (including cable and cable OEM customers) and its international retail business. In addition, the Company will increase its focus on creating new applications for its proprietary and/or patented technologies in the consumer electronics OEM market, home safety and security market and computer/internet control markets.

The Company will also continue in 1997 to control its overall cost of doing business. Management believes that through product design changes and its purchasing efforts, improvements in the Company's gross margins and efficiencies in its selling, general and administrative expenses can be accomplished. Management believes the Company's overall gross profit margins should also improve once the Company has sold through its slow moving inventory, which the Company expects to accomplish during 1997, although the Company makes no assurances that this will occur.

In addition, during 1997, management will continue to pursue its overall strategy of seeking out ways to operate all aspects of the Company more profitably, including most notably, the Company's U.S. retail business. This strategy will include looking at acceptable divestiture plans, acquisition targets and strategic partnership opportunities.

While management believes 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 continued acceptance of the Company's technology and products, the impact of competitive pressures, including products and pricing, locating and finalizing acceptable divestiture plans, acquisition targets and/or strategic partners, the availability of financing for acquisitions on terms acceptable to the Company, fluctuations in currency exchange rates, the consolidation of and new competition experienced by members in the cable industry, principally from satellite and other similar broadcast providers, general economic and stock market conditions and other risks which are otherwise set forth in this Annual Report on Form 10-K and the Company's other filings with the Securities and Exchange Commission.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of  
Universal Electronics Inc.

In our opinion, the consolidated financial statements listed in the accompanying index appearing on page 17 present fairly, in all material respects, the financial position of Universal Electronics Inc. and its subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP

Cleveland, Ohio  
January 23, 1997

UNIVERSAL ELECTRONICS INC.  
CONSOLIDATED BALANCE SHEET

	December 31,	
	1996	1995
-----		
ASSETS		
-----		
Current assets:		
Cash and cash equivalents	\$ 510,471	\$ 872,243
Accounts receivable	20,162,976	26,105,730
Inventories	21,208,007	30,278,282
Refundable income taxes	1,413	795,000
Prepaid expenses and other current assets	3,329,584	2,109,901
Deferred income taxes	1,942,875	3,701,579
	-----	-----
Total current assets	47,155,326	63,862,735
Equipment, furniture and fixtures	6,697,155	5,123,069
Patents and trademarks	900,115	801,222
Other assets	488,612	317,832
Deferred income taxes	4,209,319	-
	-----	-----
Total assets	\$59,450,527	\$70,104,858
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
-----		
Current liabilities:		
Revolving credit facility	\$ -	\$ 6,120,174
Accounts payable	7,171,130	9,162,328
Accrued income taxes	197,280	306,597
Accrued compensation	518,808	755,619
Other accrued expenses	2,752,978	3,522,133
	-----	-----
Total current liabilities	10,640,196	19,866,851
	-----	-----
Long Term Debt	3,183,475	-
Stockholders' equity:		
Preferred stock, \$.01 par value, 624,512 shares authorized; none issued or outstanding		
Common stock, \$.01 par value, 20,000,000 shares authorized; 6,787,025 and 6,750,898 shares issued and outstanding at December 31, 1996 and 1995	67,870	67,509
Paid-in capital	53,950,430	53,623,341
Currency translation adjustment	(25,084)	25,020
Accumulated deficit	(5,772,610)	(3,477,863)
	-----	-----
Total stockholders' equity	48,220,606	50,238,007
Less cost of common stock held in treasury, 415,000 shares in 1996	2,593,750	-
	-----	-----
Total stockholders' equity	45,626,856	50,238,007
	-----	-----
Total liabilities and stockholders' equity	\$59,450,527	\$70,104,858
	=====	=====

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

UNIVERSAL ELECTRONICS INC.  
CONSOLIDATED STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
Net sales	\$ 98,588,738	\$ 105,089,836	\$ 95,938,717
Cost of sales	72,943,343	74,273,775	67,601,757
Inventory write-down	1,112,041	-	11,742,454
Gross profit	24,533,354	30,816,061	16,594,506
Selling, general and administrative expenses	28,631,064	28,660,433	34,826,728
Restructuring expense	-	977,000	-
Operating income (loss)	(4,097,710)	1,178,628	(18,232,222)
Interest expense	767,500	1,049,457	993,217
Interest income	(44,133)	(40,443)	(70,267)
Other expense (income)	(234,486)	(375,712)	(27,990)
Income (loss) before taxes	(4,586,591)	545,326	(19,127,182)
Provision (benefit) for income taxes	(2,291,844)	225,799	(6,293,926)
Net income (loss)	\$ (2,294,747)	\$ 319,527	\$(12,833,256)
Net income (loss) per share	\$ (0.34)	\$ 0.05	\$ (1.91)
Weighted average common stock and common stock equivalents outstanding	6,661,285	6,777,731	6,708,044

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

## UNIVERSAL ELECTRONICS INC.

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	COMMON STOCK		TREASURY STOCK	
	SHARES	AMOUNT	SHARES	AMOUNT
Balance at December 31, 1993	6,634,538	\$66,345	-	-
Stock options exercised	107,040	1,071	-	-
Loans to employees for purchases of Common Stock	-	-	-	-
Translation adjustment	-	-	-	-
Net Loss	-	-	-	-
Balance at December 31, 1994	6,741,578	67,416	-	-
Stock options exercised	9,320	93	-	-
Loans paid by employees for purchases of Common Stock	-	-	-	-
Translation adjustment	-	-	-	-
Net Income	-	-	-	-
Balance at December 31, 1995	6,750,898	67,509	-	-
Stock options exercised	23,391	234	-	-
Purchase of treasury shares	-	-	(415,000)	(2,593,750)
Additional shares issued for employee retirement plan	12,736	127	-	-
Loans paid by employees for purchases of Common Stock	-	-	-	-
Translation adjustment	-	-	-	-
Net Income	-	-	-	-
Balance at December 31, 1996	6,787,025	\$67,870	(415,000)	\$(2,593,750)

	Paid-In Capital	Currency Translation Adjustment	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 1993	\$53,752,611	\$(23,564)	\$ 9,035,866	\$62,831,258
Stock options exercised	228,363	-	-	229,434
Loans to employees for purchases of Common Stock	(484,989)	-	-	(484,989)
Translation adjustment	-	60,435	-	60,435
Net Loss	-	-	(12,833,256)	(12,833,256)
Balance at December 31, 1994	53,495,985	36,871	(3,797,390)	49,802,882
Stock options exercised	54,190	-	-	54,283
Repayment of loans paid by employees for purchases of Common Stock	73,166	-	-	73,166
Translation adjustment	-	(11,851)	-	(11,851)
Net Income	-	-	319,527	319,527
Balance at December 31, 1995	53,623,341	25,020	(3,477,863)	50,238,007
Stock options exercised	142,518	-	-	142,752
Purchase of treasury shares	-	-	-	(2,593,750)

Additional shares issued for employee retirement plan	109,189	-	-	109,316
Repayment of loans paid by employees for purchases of Common Stock	75,382	-	-	75,382
Translation adjustment	-	(50,104)	-	(50,104)
Net Loss	-	-	(2,294,747)	(2,294,747)
	-----	-----	-----	-----
Balance at December 31, 1996	\$53,950,430	\$(25,084)	\$ (5,772,610)	\$45,626,856
	=====	=====	=====	=====

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



UNIVERSAL ELECTRONICS INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
<hr style="border-top: 1px dashed black;"/>			
Cash provided by (used for) operating activities:			
Net income (loss)	\$( 2,294,747)	\$ 319,527	\$(12,833,256)
Adjustments to reconcile net income (loss) to net cash used for operating activities:			
Depreciation and amortization	1,646,766	1,315,806	923,862
Provision for doubtful accounts	232,769	298,703	968,758
Inventory write-down	1,112,041	-	11,742,454
Deferred income taxes	(2,452,028)	(77,234)	(2,696,874)
Changes in operating assets and liabilities:			
Issuance of common stock for retirement plan	109,316	-	-
Accounts receivable	6,193,730	(9,201,940)	1,062,964
Inventory	7,935,572	12,708,501	(9,763,041)
Prepaid expenses and other assets	(1,336,298)	(251,122)	(661,719)
Accounts payable and accrued expenses	(3,260,796)	(515,272)	1,826,384
Accrued and refundable income taxes	722,891	3,143,151	(3,949,403)
	<hr style="border-top: 1px dashed black;"/>		
Net cash provided by (used for) operating activities	8,609,216	7,740,120	(13,379,871)
<hr style="border-top: 1px dashed black;"/>			
Cash used for investing activities:			
Acquisition of fixed assets	(3,436,951)	(2,800,576)	(2,518,272)
Patents and Trademarks	(211,373)	(177,443)	(217,858)
(Loans to) repayments from employees for Common Stock purchases	75,982	-	(484,989)
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Net cash used for investing activities	(3,572,942)	(2,978,019)	(3,221,119)
<hr style="border-top: 1px dashed black;"/>			
Cash provided by (used for) financing activities:			
Short-term bank borrowing	58,506,665	78,589,810	69,723,898
Short-term bank payments	(64,626,839)	(83,950,914)	(58,243,680)
Long-term debt borrowing	4,593,751	-	-
Long-term debt repayments	(1,410,275)	-	-
Deferred financing costs	-	(25,000)	(15,000)
Proceeds from stock options exercised	142,752	54,283	229,434
Treasury stock purchased	(2,593,750)	-	-
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Net cash provided by (used for) financing activities	(5,387,696)	(5,331,821)	11,694,652
<hr style="border-top: 1px dashed black;"/>			
Effect of exchange rate changes on cash	(10,350)	1,629	141,960
<hr style="border-top: 1px dashed black;"/>			
Net increase (decrease) in cash and cash equivalents	(361,772)	(568,091)	(4,764,378)
Cash and cash equivalents at beginning of period	872,243	1,440,334	6,204,712
	<hr style="border-top: 1px dashed black;"/>		
Cash and cash equivalents at end of period	\$ 510,471	\$ 872,243	\$ 1,440,334
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The accompanying notes are an integral part of these financial statements.

## UNIVERSAL ELECTRONICS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

## Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and significant transactions have been eliminated in the consolidated financial statements.

## Revenue Recognition

Product revenues are recognized upon product shipment. The Company provides allowances for estimated returns of defective or damaged product and other sales promotions and discounts at the time of product shipment.

## Foreign Currency Translation

The assets and liabilities of foreign subsidiaries are translated to U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates during the period. Resulting translation adjustments are recorded in a separate component of stockholders' equity, "Currency Translation Adjustment".

## Cash and Cash Equivalents

Cash and cash equivalents include cash accounts and all investments purchased with initial maturities of three months or less.

## Inventories

Inventories consist of remote control devices, home safety and automation devices and related spare parts and are valued at the lower of cost or market. Cost is determined using the first-in, first-out method.

## Equipment, Furniture and Fixtures

Fixed assets are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Annual rates of depreciation range from 15% for furniture, fixtures and office equipment to 50% for engineering equipment. Leasehold improvements are amortized over the terms of the related leases. When fixed 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 in current income.

## Patents and Trademarks

Patents and trademarks are amortized over ten years. At December 31, 1996, 1995 and 1994, accumulated amortization was \$321,980, \$212,203 and \$120,710, respectively.

## Income Taxes

Income taxes are recognized during the year in which transactions enter into the determination of financial statement income. Deferred income taxes are provided utilizing an asset and liability method that requires

the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns.

#### Research and Development

Research and development expenditures are expensed as incurred. Research and development expense was \$287,665, \$267,816, and \$461,196, for the years ended December 31, 1996, 1995 and 1994, respectively.

#### Advertising

Advertising costs are expensed as incurred. Advertising expense was \$1,611,841, \$456,987, and \$3,028,868 for the years ended December 31, 1996, 1995 and 1994, respectively.

#### Net income (loss) per share

Net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares and common stock equivalents outstanding. Common stock equivalents for all periods presented are computed utilizing the treasury stock method.

#### Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Actual results could differ from those estimates.

#### Reclassifications

Certain prior year amounts have been reclassified to conform with the presentation utilized in the year ended December 31, 1996.

#### NOTE 2 - ACCOUNTS RECEIVABLE:

Accounts receivable are expected to be collected within one year and consist of the following:

	1996	1995
	-----	-----
Accounts receivable, gross	20,522,456	26,448,180
Allowance for doubtful accounts	(359,480)	(342,450)
	-----	-----
	\$20,162,976	\$26,105,730
	=====	=====

#### NOTE 3 - INVENTORIES:

Inventories consist of the following:

	DECEMBER 31,	
	1996	1995
	-----	-----
Components	\$ 8,154,609	\$14,127,081
Finished goods	13,053,398	16,151,201
	-----	-----
	\$21,208,007	\$30,278,282
	=====	=====

The Company carries significant amounts of inventory in order to satisfy certain of its customers' inventory requirements on a timely basis. New product innovations and technological advances may shorten a given product's life cycle, which may require special programs to reduce inventory to desired levels. During the fourth quarter of 1996, one of the Company's suppliers of integrated circuits announced new lower cost chips would be available during the second half of 1997. As a result, management wrote down the inventory of existing chips on hand to net realizable value to anticipate the impact of this new technology. Management continually monitors the inventory status and has developed programs, when necessary, to control inventory levels and dispose of any excess or obsolete inventories on hand. Management believes an adequate provision has been made in the financial statements for any loss on disposition of inventory.

NOTE 4 - EQUIPMENT, FURNITURE AND FIXTURES:

Fixed assets consist of the following:

	DECEMBER 31,	
	1996	1995
	-----	-----
Building	\$ 2,231,459	\$ -
Equipment	7,291,484	6,397,441
Furniture and fixtures	628,570	582,778
Leasehold improvements	19,328	355,309
	-----	-----
	10,170,840	7,335,528
Accumulated depreciation	(3,608,257)	(2,717,834)
	-----	-----
	6,562,583	4,617,694
	-----	-----
Construction in Progress	134,571	505,375
	-----	-----
	\$ 6,697,155	\$ 5,123,069
	=====	=====

Depreciation expense was \$1,531,520, \$1,212,325, and \$1,004,181, for the years ended December 31, 1996, 1995 and 1994, respectively.

NOTE 5 - REVOLVING CREDIT LINE:

On November 22, 1995, the Company entered into a \$22 million revolving credit agreement with The Provident Bank which expires on April 30, 1998. The interest rate on the borrowing is modified periodically based on formulas specified in the agreement and is based on the bank's prime rate (8.25% at December 31, 1996) less three-quarter percent. Effective in January 1997, the agreement was amended to modify certain of the financial covenants and adjust the interest rate to be equal to the bank's prime rate plus one-quarter of one percent. Under the terms of this revolving credit facility, the Company's ability to pay cash dividends on its common stock is restricted and the Company is subject to certain financial covenants with limits on its ability to repurchase its stock and other restrictions. Further, amounts available for borrowing under this credit facility are reduced by the outstanding balance of the Company's import letters of credit. The Company pays a commitment fee of a maximum rate of 1/8 of 1% per year on the unused portion of the credit line. The revolving credit facility is secured by a first priority security interest in the accounts receivable, inventory, equipment and general intangibles of the Company.

Prior to November 1995, the Company's credit facility was provided by Society National Bank.

The Company had approximately \$3.2 and \$6.1 million at December 31, 1996 and 1995, respectively, outstanding under this revolving credit facility provided by The Provident Bank and approximately \$0.5 million and \$2.6 million at December 31, 1996 and 1995 respectively, of outstanding import letters of credit. The weighted average interest rate was 7.47% and 8.59% for the years ended December 31, 1996 and 1995, respectively. Interest paid on

the revolving credit facilities amounted to \$780,411, \$1,083,951, and \$879,352 for the years ended December 31, 1996, 1995 and 1994, respectively.

NOTE 6 - FINANCIAL INSTRUMENTS:

The Company's financial instruments consist primarily of investments in cash and cash equivalents, accounts receivable and accounts payable, as well as obligations under the credit facility described above. The carrying values of these instruments approximate fair value because of their short maturity.

The Company enters into forward exchange contracts to hedge foreign currency transactions on a continuing basis for periods consistent with its committed exposures. These contracts are with major financial institutions and the risk of loss due to the financial institutions' nonperformance is considered remote. The gains and losses on these forward contracts are recognized in net income when the underlying foreign currency gain and loss is recognized. At December 31, 1996, the Company had no significant forward exchange contracts.

NOTE 7 - STOCKHOLDERS' EQUITY:

Loans to Employees for Common Stock Purchases

During 1994, the Company loaned \$484,989 to certain of its officers and key employees to enable them to purchase 74,409 shares of the Company's Common Stock on the open market. The principal amount of the loans is due in full five years from the inception date, with interest on the loans accruing at the minimum rate required per annum by the Internal Revenue Code and payable at maturity. These loans are reflected as a reduction of Stockholders' Equity and are secured by the Common Stock purchased in accordance with the corresponding Stock Pledge Agreement. The Stock Pledge Agreement in certain instances accelerates debt repayment and provides for the forgiveness of the debt. During 1996 and 1995, \$5,600 and \$216,769, respectively, was forgiven under the terms of these agreements.

Fair Price Provisions and Other Anti-Takeover Measures

The Company's 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" provision). Any of these provisions could delay or prevent a change in control of the Company.

The "fair price" provisions require that holders of at least two-thirds of the outstanding shares of voting stock approve certain business combinations and significant transactions with interested stockholders.

Treasury Stock

In September 1996, 415,000 shares of common stock were purchased by the Company on the open market for a cost of \$2.6 million. The shares will generally be held by the Company, however, some of these shares will be used by the Company to compensate the outside directors of the Company.

NOTE 8 - STOCK OPTIONS:

1993 Stock Incentive Plan

On January 19, 1993, the Company's stockholders approved the 1993 Stock Incentive Plan ("1993 Plan"). Under the 1993 Plan, 200,000 shares of Common Stock are reserved for the granting of incentive and other stock options to officers, key employees and non-affiliated directors. The 1993 Plan provides for the granting of incentive and other stock options through January 19, 2003. All options outstanding at the

time of termination of the 1993 Plan shall continue in full force and effect in accordance with their terms. The option price for incentive stock options and non-qualified stock options will not be less than the fair market value at the date of grant. The Compensation Committee shall determine when each option is to expire, but no option shall be exercisable more than ten years after the date the option is granted. The 1993 Plan also provides for the award of stock appreciation rights subject to terms and conditions specified by the Compensation Committee. No stock appreciation rights have been awarded under this 1993 Plan.

#### 1995 Stock Incentive Plan

On May 19, 1995, the Company's stockholders approved the 1995 Stock Incentive Plan ("1995 Plan"). Under the 1995 Plan, 400,000 shares of Common Stock are available for distribution to the Company's key officers, employees and non-affiliated directors. The 1995 Plan provides for the issuance of stock options, stock appreciation rights, performance stock units, or any combination thereof through May 19, 2005, unless otherwise terminated by the resolution of the Board of Directors. The option price for the stock options will be equal to the fair market value at the date of grant. The Compensation Committee shall determine when each option is to expire, but no option shall be exercisable more than ten years after the date the option is granted.

#### 1996 Stock Incentive Plan

On December 1, 1996, the Company's board of directors approved the 1996 Stock Incentive Plan ("1996 Plan"). Under the 1996 Plan, 400,000 shares of Common Stock are available for distribution to the Company's key officers and employees. The 1996 Plan provides for the issuance of stock options, stock appreciation rights, performance stock units, or any combination thereof through November 30, 2007, unless otherwise terminated by the resolution of the Company's board of directors. The option price for the stock options will be equal to the fair market value at the date of grant. The Compensation Committee shall determine when each option is to expire, but no option shall be exercisable more than ten years after the date the option is granted.

The Company applies the provisions of ABP Opinion No. 25 in accounting for stock-based employee compensation; therefore, no compensation expense has been recognized for its fixed stock option plan as options generally are granted at fair market value on the date of the grant. In October 1995, Statement of Financial Accounting No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"), was issued. The Company adopted the disclosure requirements of this Statement in 1996 and accordingly, had compensation expense been determined consistent with SFAS No. 123, the Company's 1996 net loss and primary loss per share would have been \$2,658,136 and \$0.40, respectively. The effect on 1995 net income and earnings per share amounts was not material.

The imputed fair value of options at date of grant was estimated using the Black-Scholes model. The following assumptions were used for the grants in 1996 and 1995, respectively: risk-free interest rate of approximately 5.86% and 6.08%; expected volatility of approximately 46.95 and 54.98; and expected life of ten years for both 1996 and 1995.

The following table summarizes the changes in the number of shares of Common Stock under option:

	NUMBER OF SHARES =====	OPTION PRICE RANGE =====	
Shares subject to option at December 31, 1993	331,990	\$0.01	- \$13.000
Options granted	50,000		\$ 6.310
Options exercised	(107,040)	\$0.01	- \$ 6.658
Options forfeited or expired	(7,670)	\$6.658	- \$13.000
Shares subject to option at December 31, 1994	267,280	\$6.31	- \$13.000
Options granted	295,500	\$4.31	- \$7.6875
Options exercised	(9,320)	\$4.31	- \$ 6.658
Options forfeited or expired	(98,605)	\$4.31	- \$13.000
Shares subject to option at December 31, 1995	454,855	\$4.31	- \$13.000
Options granted	447,500	\$5.6875	- \$11.250
Options exercised	(23,391)	\$ 4.31	- \$ 6.658
Options forfeited or expired	(75,557)	\$ 4.31	- \$13.000
Shares subject to option at December 31, 1996	803,407	\$ 4.31	- \$13.000
Exercisable options at December 31, 1994	53,131	\$6.658	- \$13.000
Exercisable options at December 31, 1995	111,412	\$6.31	- \$13.000
Exercisable options at December 31, 1996	261,914	\$4.31	- \$13.000

Significant option groups outstanding at December 31, 1996 and related weighted average price and life information follows:

GRANT DATE	OPTIONS OUTSTANDING	OPTIONS EXERCISABLE	EXERCISE PRICE	VESTING PERIOD
02/02/93	39,918	29,610	\$13.00	25% per year
08/04/94	33,550	13,550	\$ 6.31	25% per year
03/20/95	128,625	44,625	\$ 4.31	25% per year
12/15/95	95,500	25,375	\$ 7.6875	25% per year
01/01/96	50,000	0	\$ 7.6875	25% per year
12/01/96	290,000	98,600	\$ 5.6875	33% per year
All Others	166,814	50,154	\$ 7.6818	25%-33% per year

Options in the all other category were outstanding at prices ranging from \$4.31-\$11.25.

## NOTE 9 - SIGNIFICANT CUSTOMERS AND SUPPLIERS

The Company had annual sales to two customers that individually exceeded 10% of the total Company sales in each of the three years ended December 31, 1996, 1995 and 1994. The sales amounted to \$12.3 million and \$10.5 million, \$12.6 million and \$8.2 million, and \$16.0 million and \$10.8 million, respectively in 1996, 1995 and 1994. Trade receivables with the previously mentioned customers amounted to \$3.0 million and \$4.1 million at December 31, 1996 and 1995, respectively.

Trade receivables subject the Company to a concentration of credit risk with customers in the retail sector. The risk is limited due to the large number of customers comprising the Company's customer base and the Company's performance of ongoing credit evaluations.

The Company currently purchases a significant portion of its integrated circuit chips from one vendor. Although there are a limited number of manufacturers of this component part, management believes that other suppliers could provide similar parts on comparable terms. A change in suppliers, however, could cause a delay in manufacturing and a possible loss of sales, which would affect operating results adversely.

## NOTE 10 - LEASES:

The Company leases office and warehouse space and certain office equipment under operating leases. Rental expense under operating leases was \$793,779, \$1,134,688, and \$1,016,577, for the years ended December 31, 1996, 1995 and 1994, respectively.

The following summarizes future minimum noncancellable operating lease payments at December 31, 1996:

Year ending December 31:	AMOUNT
	-----
1997	\$299,694
1998	233,490
1999	205,542
2000	50,040
2001 & beyond	9,021
	-----
Total lease commitments	\$797,787
	=====

## NOTE 11 - EMPLOYEE BENEFIT PLANS:

The Company maintains a retirement and profit sharing plan under Section 401(k) of the Internal Revenue Code for all of its domestic employees that meet certain qualifications. Participants in the plan may elect to contribute from 1% to 15% of their annual salary to the plan. The Company may, at its discretion, make contributions to the plan. During 1996, 1995 and 1994, the Company matched participants' contributions at 25%. During 1996, 1995 and 1994, the Company's matching contribution expense was \$134,899, \$96,485, and \$111,130, respectively. The Company's match in 1996 was in the form of shares of common stock of the Company. In 1995 and 1994 the matching contribution was in cash.



## NOTE 12 - INCOME TAXES:

In 1996, 1995 and 1994, pretax income (loss) was attributed to the following jurisdictions:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
Domestic operations	\$ (4,867,074)	\$ (249,105)	\$(20,074,452)
Foreign operations	280,483	794,431	947,270
Total	\$ (4,586,591)	\$ 545,326	\$(19,127,182)

The provision (benefit) for income taxes charged to operations was as follows:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
Current tax expense (benefit):			
U.S. federal	\$ (49,797)	\$ (67,576)	\$(3,802,754)
State and local	93,900	140,223	86,436
Foreign	118,082	256,976	326,215
Total current	162,185	329,623	(3,390,103)
Deferred tax expense (benefit):			
U.S. federal	(2,286,243)	(31,949)	(2,668,895)
State and local	(167,786)	(71,875)	(234,928)
Foreign	-	-	-
Total deferred	(2,454,029)	(103,824)	(2,903,823)
Total provision (benefit)	(2,291,844)	\$ 225,799	\$(6,293,926)

Deferred tax liabilities (assets) were comprised of the following at December 31:

	1996	1995	1994
Depreciation	\$ 636,189	\$ 538,476	\$ 195,283
Tax basis differential on acquired assets	-	-	(16,752)
Other	-	-	-
Gross deferred tax liabilities	636,189	538,476	178,531
Capitalized packaging costs	(93,979)	(140,217)	(185,358)
Advertising allowance	(228,739)	(96,242)	(137,066)
Inventory reserves	(489,398)	(922,835)	(2,147,438)
Allowance for doubtful accounts	(109,832)	(117,277)	(159,134)
Sales return reserve	(175,685)	(207,259)	(364,908)
Capitalized inventory costs	(136,540)	(384,696)	(466,470)
NOL and credit carry forwards	(5,353,650)	(2,147,903)	(218,702)
Promotional rebate reserve	(12,444)	-	(201,137)
Other	(362,315)	(397,825)	(96,862)
Gross deferred tax assets	(6,962,582)	(4,414,254)	(3,977,075)
Valuation allowance	174,199	174,199	174,199
	\$ (6,152,194)	\$ ( 3,701,579)	\$(3,624,345)

The valuation allowance relates primarily to alternative minimum tax and other credit carry forwards where it is more likely than not that they may fail to be realized prior to expiration. In management's opinion,

future taxable income will be sufficient to utilize the tax benefit recognized as deferred tax assets.

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:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
Tax provision (benefit) at statutory U.S. rate	\$(1,559,441)	\$ 185,411	\$(6,503,242)
Increase (decrease) in tax provision resulting from:			
State and local taxes, net	(304,177)	45,359	(98,005)
Foreign tax rate differential	22,718	(7,042)	47,797
Tax exempt interest	-	-	(15,215)
Nondeductible items	24,501	22,167	43,518
Research and development credit	(349,797)	-	-
Other	(125,648)	(20,096)	57,022
Valuation allowance	-	-	174,199
Tax provision (benefit), as above	\$(2,291,844)	\$ 225,799	\$(6,293,926)

Income taxes paid (refunded) were \$(48,897), \$(3,185,788), and \$183,853, for the years ended December 31, 1996, 1995 and 1994, respectively. The Company has an alternative minimum tax credit carryforward of \$268,756 and a federal net operating loss carryforward of \$11,757,025 which expires in 2010 and 2011. The Company also has a research and development credit carryforward of \$631,097 which expires in 2006 through 2010. No income taxes have been provided on the undistributed earnings of foreign subsidiaries as the earnings are expected to be permanently reinvested in the foreign operations.

NOTE 13 - BUSINESS SEGMENTS AND FOREIGN OPERATIONS:

The Company operates in a single industry segment and is engaged in the development, manufacturing and marketing of universal remote controls and related products principally for home video and audio entertainment equipment. The Company's customers consist primarily of domestic and international retailers, private label customers, original equipment manufacturers and cable operators.

The Company's operations by geographic area are presented below:

	1996	1995	1994
Net Sales			
North & South America	\$ 77,804,806	\$ 90,934,047	\$ 84,510,101
Europe	20,783,933	14,155,789	11,428,616
	-----	-----	-----
	\$ 98,588,739	\$ 105,089,836	\$ 95,938,717
	=====	=====	=====
Operating Profit			
North & South America	\$ (6,991,052)	\$ (1,431,344)	\$ (17,027,638)
Europe	2,893,342	2,609,972	(1,204,584)
	-----	-----	-----
	\$ (4,097,710)	\$ 1,178,628	\$ (18,232,222)
	=====	=====	=====
Identifiable Assets			
North & South America	\$ 51,189,554	\$ 64,227,365	\$ 69,321,295
Europe	8,260,973	5,877,493	5,948,648
	-----	-----	-----
	\$ 59,450,527	\$ 70,104,858	\$ 75,269,943
	=====	=====	=====

In addition to the operations of the foreign subsidiaries, the Company had export sales in 1996, 1995 and 1994 of \$11,231,679, \$13,457,066, and \$12,239,585, respectively. Foreign currency exchange gains (losses) of \$42,586, \$10,589, and \$(27,209), were included in the determination of net income for the years ended December 31, 1996, 1995 and 1994, respectively.

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES:

The Company is a party to several lawsuits and claims arising in the normal course of its business. In the opinion of management, the Company's liability or recovery, if any, under pending litigation and claims would not materially adversely affect its results of operations, cash flows, or financial condition.

NOTE 15 - RESTRUCTURING

During 1995, the Company reorganized various aspects of its operations which included work force reductions. The majority of terminated employees received a severance package which ranged from one to four months of compensation based on years of service and employee classification. The Company's former President and Chief Executive Officer received a severance package which expired on December 31, 1995. The severance packages included salary, commission when applicable, and all employee benefits received during the normal course of employment. As a result of this restructuring, the Company's 1995 first quarter earnings included a pre-tax charge of approximately \$977,000 (\$625,000 or \$0.09 per share after tax).

## NOTE 16 - QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized quarterly financial data for the years ended December 31, 1996, 1995, and 1994.

	1996			
	MARCH 31,	JUNE 30,	SEPTEMBER 30,	DECEMBER 31,
Net sales	\$ 21,904,966	\$ 21,526,241	\$ 25,641,152	\$ 29,516,379
Gross profit (loss)	5,842,020	6,624,515	6,770,965	5,295,854
Operating income (loss)	(1,279,314)	373,874	165,462	(3,667,232)
Net income (loss)	(570,152)	247,656	112,183	(2,084,434)
Net income (loss) per share	\$ (0.08)	\$ 0.04	\$ 0.02	\$ (0.33)
Weighted average common stock and common stock equivalents outstanding	\$ 6,758,000	\$ 6,945,000	\$ 6,855,000	\$ 6,369,000
	1995			
	MARCH 31,	JUNE 30,	SEPTEMBER 30,	DECEMBER 31,
Net sales	\$ 18,573,156	\$ 24,667,322	\$ 30,725,939	\$ 31,123,419
Gross profit (loss)	4,638,547	7,036,591	9,143,269	9,997,655
Operating income (loss)	(2,795,276)	209,462	2,321,726	2,423,225
Net income (loss)	(2,453,164)	61,143	1,377,164	1,334,384
Net income (loss) per share	\$ (0.36)	\$ 0.01	\$ 0.20	\$ 0.20
Weighted average common stock and common stock equivalents outstanding	\$ 6,741,000	\$ 6,775,000	\$ 6,829,000	\$ 6,830,000
	1994			
	MARCH 31,	JUNE 30,	SEPTEMBER 30,	DECEMBER 31,
Net sales	\$ 20,382,226	\$ 23,038,347	\$ 27,832,849	\$ 24,685,295
Gross profit (loss)	6,761,778	6,641,277	8,610,272	(5,418,821)
Operating income (loss)	(1,950,536)	(1,846,618)	1,029,846	(15,464,914)
Net income (loss)	(1,220,259)	(1,254,545)	393,663	(10,752,115)
Net income (loss) per share	\$ (0.18)	\$ (0.19)	\$ 0.06	\$ (1.60)
Weighted average common stock and common stock equivalents outstanding	\$ 6,635,000	\$ 6,712,000	\$ 6,742,000	\$ 6,742,000

During the fourth quarter of 1994, the Company recorded an inventory write-down and unusual sales discounts in the form of price protection of approximately \$11,742,000 and \$2,181,000, respectively. The total after-tax charge was \$9,189,000 or \$1.39 per share. During the fourth quarter of 1996, the Company wrote down a portion of its inventory of microprocessors after one of its major suppliers announced a new line of lower cost chips would be available in the second half of 1997. The write-down amounted to \$1,112,000 on a pretax basis or \$0.11 per share for the full year.

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

None.

## PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by Item 401 of Regulation S-K with respect to the directors of the Company will be contained in and is hereby incorporated by reference to the Company's definitive Proxy Statement for its 1997 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934. Information regarding executive officers of the Company is set forth in Part I of this Form 10-K.

## ITEM 11. EXECUTIVE COMPENSATION

Information required by Item 402 of Regulation S-K will be contained in and is hereby incorporated by reference to the Company's definitive Proxy Statement for its 1997 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by Item 403 of Regulation S-K will be contained in and is hereby incorporated by reference to the Company's definitive Proxy Statement for its 1997 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by Item 404 of Regulation S-K will be contained in and is hereby incorporated by reference to the Company's definitive Proxy Statement for its 1997 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

## PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

## (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 38 of this Form 10-K for a List of Exhibits to be filed pursuant to Item 601(a) of this Regulation S-K.

## (b) No reports on Form 8-K were filed by the Company during the quarter ended December 31, 1996.

## SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Twinsburg, State of Ohio on the 26th day of March, 1997.

UNIVERSAL ELECTRONICS INC.

By: /s/ David M. Gabrielsen

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David M. Gabrielsen

Chairman, President and Chief Executive Officer

## POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints David M. Gabrielsen and Paul D. Arling 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 could do in person, thereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the 26th day of March, 1997, by the following persons in the capacities indicated.

NAME & TITLE	SIGNATURE
Paul D. Arling Senior Vice President, Chief Financial Officer and Treasurer and Director (Principal Financial Officer)	/s/Paul D. Arling -----
David M. Gabrielsen Chairman, President and Chief Executive Officer and Director (Principal Executive Officer)	/s/David M. Gabrielsen -----
Peter L. Gartman Director	/s/Peter L. Gartman -----
Bruce A. Henderson Director	/s/Bruce A. Henderson -----
Brian J. Jackman Director	/s/Brian J. Jackman -----
Mark S. Kopaskie Executive Vice President and Chief Operating Officer and Director	/s/Mark S. Kopaskie -----
Dennis P. Mansour Corporate Controller (Principal Accounting Officer)	/s/Dennis P. Mansour -----
William C. Mulligan Director	/s/William C. Mulligan -----
Thomas G. Murdough, Jr. Director	/s/Thomas G. Murdough, Jr. -----

## UNIVERSAL ELECTRONICS INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES  
FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	WRITE-OFFS AND DEDUCTIONS	BALANCE AT END OF PERIOD
Valuation account for accounts receivable:				
Year Ended December 31, 1996	\$342,450	\$232,625	\$215,595	\$359,480
Year Ended December 31, 1995	\$496,501	\$298,703	\$452,754	\$342,450
Year Ended December 31, 1994	\$129,955	\$981,770	\$615,224	\$496,501

\* Doubtful accounts are charged off, net of recoveries, directly to operations.



## EXHIBIT INDEX

EXHIBIT NUMBER	DOCUMENT DESCRIPTION
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))
10.1	Purchase and Sale Agreement dated January 22, 1991, as amended, by and between Universal Electronics Inc. and Eveready Battery Company, Inc. (Incorporated by reference to Exhibit 10.9 to the Company's Form S-1 Registration filed on or about December 24, 1992 (File No. 33-56358))
*10.2	Stock Option Agreement dated January 1, 1992 by and between Universal Electronics Inc. and Bruce V. Vereecken (Incorporated by reference to Exhibit 10.11 to the Company's Form S-1 Registration filed on or about December 24, 1992 (File No. 33-56358))
*10.3	Form of Stock Option Agreement dated July 24, 1992 by and between Universal Electronics Inc. and Michael D. Reilly (Incorporated by reference to Exhibit 10.12 to Amendment No. 1 to the Company's Form S-1 Registration filed on or about January 21, 1993 (File No. 33-56358))
*10.4	Form of Universal Electronics Inc. 1993 Stock Incentive Plan (Incorporated by reference to Exhibit 10.13 to Amendment No. 1 to the Company's Form S-1 Registration filed on or about January 21, 1993 (File No. 33-56358))
10.5	Standard Industrial Lease dated January 24, 1992 by and between Universal Electronics Inc. and RREEF USA Fund II, Inc. (Incorporated by reference to Exhibit 10.24 to the Company's Form S-1 Registration filed on or about June 25, 1993 (File No. 33-65082))
10.6	Revolving Credit Agreement dated as of June 24, 1993 by and between Universal Electronics Inc. and Society National Bank (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 (File No. 0-21044))
10.7	First Amendment to Revolving Credit Agreement dated June 10, 1994 by and between Universal Electronics Inc. and Society National Bank (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 (File No. 0-21044))

EXHIBIT NUMBER	DOCUMENT DESCRIPTION
10.8	Promissory Note dated June 10, 1994 by and between Universal Electronics Inc. and Society National Bank (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 (File No. 0-21044))
10.9	Security Agreement Account Receivable, Inventory and Equipment dated June 30, 1994 by and between Universal Electronics Inc. and Society National Bank (Incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 (File No. 0-21044))
10.10	Lock Box Agreement dated June 30, 1994 by and between Universal Electronics Inc. and Society National Bank (Incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 (File No. 0-21044))
10.11	Form of Secured Promissory Note by and between Universal Electronics Inc. and certain employees used in connection with loans made to the employee to enable them to make open market purchases of shares of Universal Electronics Inc. Common Stock (Incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 (File No. 0-21044))
10.12	Form of Stock Pledge Agreement by and between Universal Electronics Inc. and certain employees used in connection with loans made to the employees to enable them to make open market purchases of shares of Universal Electronics Inc. Common Stock (Incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 (File No. 0-21044))
10.13	Second Amendment to Revolving Credit Agreement dated October 10, 1994 by and between Universal Electronics Inc. and Society National Bank (Incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 (File No. 0-21044))
10.14	Loan and Security Agreement dated November 21, 1995 by and between Universal Electronics Inc. and The Provident Bank (Incorporated by reference to Exhibit 10.20 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))
10.15	Copy of Promissory Note dated November 21, 1995 by and between Universal Electronics Inc. and The Provident Bank (Incorporated by reference to Exhibit 10.21 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))

EXHIBIT NUMBER	DOCUMENT DESCRIPTION
10.16	Commercial Letters of Credit Master Agreement dated November 21, 1996 by and between Universal Electronics Inc. and The Provident Bank (Incorporated by reference to Exhibit 10.22 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))
10.17	Intercreditor Agreement dated November 21, 1995 by and between The Provident Bank and Society National Bank and acknowledged and agreed to by Universal Electronics Inc. (Incorporated by reference to Exhibit 10.23 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))
10.18	Lockbox Service Contract dated November 10, 1995 by and between Universal Electronics Inc. and The Provident Bank (Incorporated by reference to Exhibit 10.24 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))
*10.19	Form of Universal Electronics Inc. 1995 Stock Incentive Plan (Incorporated by referenced to Exhibit B to the Company's Definitive Proxy Materials for the 1995 Annual Meeting of Stockholders of Universal Electronics Inc. filed on May 1, 1995 (File No. 0-21044))
*10.20	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain employees used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 1995 Stock Incentive Plan (filed herewith)
*10.21	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain non-affiliated directors used in connection with options granted to the non-affiliated directors pursuant to the Universal Electronics Inc. 1995 Stock Incentive Plan (filed herewith)
10.22	First Amendment to Loan and Security Agreement dated July 31, 1996 by and between Universal Electronics Inc. and The Provident Bank (filed herewith)
*10.23	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))
*10.24	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))
10.25	Sublease dated January 10, 1997 by and between Universal Electronics Inc. and Edgemont Sales Company, a division of IKON Office Solutions, Inc. (filed herewith)

EXHIBIT NUMBER	DOCUMENT DESCRIPTION
11.1	Statement re: computation of per share earnings (filed herewith)
21.1	List of Subsidiaries of the Registrant (filed herewith)
23.1	Consent of PRICE WATERHOUSE LLP (filed herewith)
24.1	Power of Attorney (filed as part of the signature page hereto)
27.1	Financial Data Schedule (filed herewith)

\* Management contract or compensation plan or arrangement identified pursuant to Item 14(c) of the Form 10-K.

STOCK OPTION AGREEMENT  
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THIS STOCK OPTION AGREEMENT is made as of the date set forth on the signature page hereof by and between Universal Electronics Inc., a Delaware corporation (the "Corporation") and the undersigned Optionee (the "Optionee"). As used in this Agreement, the term "Corporation" shall include, where applicable, any and all of its subsidiaries.

WHEREAS, the Board of Directors of the Corporation (the "Board") has approved the Universal Electronics Inc. 1995 Stock Incentive Plan (the "Plan") and has submitted the Plan to the stockholders of the Corporation for their approval; and

WHEREAS, the Corporation desires to grant to the Optionee an option ("Option") to purchase shares of the Corporation's common stock, par value \$0.01 per share (the "Stock"), upon the terms and conditions set forth in this Agreement;

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

1. GRANT AND DESIGNATION OF OPTION. Upon the execution and delivery of this Agreement and the related Stock Option Certificate of even date herewith (the "Certificate"), the Corporation hereby grants to the Optionee the Option to purchase the aggregate number of shares of Stock set forth on the Certificate at the price per share ("Option Price") further set forth on the Certificate. The Option granted hereunder shall not be treated as an incentive stock option within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended.

2. TERM AND EXERCISE OF OPTION. Subject to earlier termination, acceleration or cancellation of the Option as provided herein, the term of the Option shall be for that period of time also set forth on the Certificate (the "Option Period") and, subject to the provisions of this Agreement, the Option shall be exercisable at such times and as to such number of shares as determined on the schedule set forth on the Certificate.

3. METHOD OF EXERCISE. The Option may be exercised by written notice to the Corporation (the "Exercise Notice") at its offices at 1864 Enterprise Parkway West, Twinsburg, Ohio 44087 (or such other offices of the Corporation which are hereinafter designated by the Corporation) to the attention of the Secretary of the Corporation. The Exercise Notice shall state (i) the election to exercise the Option, (ii) the total number of full shares in respect to which it is being exercised, and (iii) shall be signed by the person or persons exercising the Option. The Exercise Notice shall be accompanied by the Certificate and a certified or cashier's check for the full amount of the purchase price of such shares, or as may be permitted by the Board, by certificates for shares of previously owned Stock in lieu of or in combination with such cash payment. Upon receipt of the foregoing, the Corporation shall issue the shares of Stock as to which the Option has been duly exercised and shall return the Certificate, duly endorsed to reflect such exercise, to the Optionee.

## 4. OPTIONEE'S REPRESENTATIONS.

(a) Optionee represents and warrants that any and all shares acquired through the exercise of rights under the Option granted pursuant to this Agreement will be acquired for Optionee's own account and not with a view to, or present intention of, distribution thereof in violation of the Securities Act of 1933, as amended and the rules and regulations promulgated thereunder (the "1933 Act") and will not be disposed of in contravention of the 1933 Act.

(b) Optionee acknowledges that Optionee is able to bear the economic risk of the investment in any and all shares of Stock acquired through the exercise of rights under the Option for an indefinite period of time because the Stock has not been registered under the 1933 Act and, therefore, cannot be sold unless subsequently registered under the 1933 Act or an exemption from such registration is available.

(c) Optionee has reviewed this Agreement and has had an opportunity to ask questions and receive answers concerning the terms and conditions of the offering of Stock and has had full access to such other information concerning the Corporation as Optionee has requested.

5. RESTRICTION ON EXERCISE. This Option may not be exercised if the issuance of such shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulation. As a condition to the exercise of this Option, the Corporation may require Optionee to make any representation and warranty to the Corporation as may be required by any applicable law or regulation. All exercises of the Option must be for full shares of Stock only.

6. EFFECT OF TERMINATION OF EMPLOYMENT. Except as set forth in Paragraphs 7 and 8 below, in the event that Optionee's employment with the Corporation ceases for any reason, Optionee may (or Optionee's estate or representative, in the event of Optionee's death during the applicable exercise period as set forth in this Paragraph 6), during the earlier of (i) the 180 day period following such cessation of employment or (ii) the remaining term of the Option Period, exercise the Option to the extent such Option was exercisable on the date such employment ceased and, on such date, that portion of the Option which was not exercisable shall automatically terminate without further action by the parties hereto and, in all events, to the extent not exercised, the Option shall terminate in its entirety at the end of business on the applicable exercise period as set forth in this Paragraph 6.

7. EFFECT OF TERMINATION OF EMPLOYMENT WITHOUT CAUSE OR DUE TO CONSTRUCTIVE TERMINATION.

(a) In the event that Optionee's employment with the Corporation is terminated by the Corporation without "Cause" (as such term is defined in subparagraph 7(b) below), or in the event of "Constructive Termination" (as such term is defined in subparagraph 7(c) below), Optionee shall become immediately fully vested in the Option without further action by the

parties hereto, and, to the extent not previously exercised, shall be exercisable in whole or in part with respect to all remaining shares of Stock covered by the Option and may be exercised by Optionee (or Optionee's estate or representative, in the event of Optionee's death) at any time prior to the expiration of the Option Period.

(b) For purposes of this Agreement, "Cause" shall mean (i) the willful and continued failure by Optionee to substantially perform Optionee's duties with the Corporation (other than a failure resulting from Optionee's death or "Total Disability" (as such term is defined in subparagraph 7(e) below)) after a demand for substantial performance is delivered to Optionee by the Corporation which specifically identifies the manner in which it is believed that Optionee has not substantially performed Optionee's duties; (ii) the willful engaging by Optionee in gross misconduct materially and demonstrably injurious to the property or business of the Corporation; or (iii) Optionee's commission of fraud, misappropriation or a felony. For purposes of this definition of "Cause", no act or failure to act on Optionee's part will be considered "willful" unless done, or omitted to be done, by Optionee not in good faith and without reasonable belief that Optionee's action or omission was in the interests of the Corporation or not opposed to the interests of the Corporation.

(c) For purposes of this Agreement, "Constructive Termination" shall occur on that date on which Optionee resigns from employment with the Corporation, if such resignation occurs within eighteen (18) months after the occurrence of (i) the failure of Optionee to be elected or re-elected or appointed or reappointed to such office which Optionee holds (other than as a result of a termination for "Cause") if Optionee is an officer of the Corporation and the office which Optionee holds is one to which Optionee is elected according to the Corporation's By-laws; (ii) a change in Optionee's functions, duties, or responsibilities such that Optionee's position with the Corporation becomes substantially less in responsibility, importance, or scope; or (iii) a "Change in Control" (as defined in subparagraph 7(d) below).

(d) For purposes of this Agreement, a "Change in Control" shall be deemed to occur when (i) any "person" or "group" (as such terms are used in Sections 3(a), 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the "1934 Act")), other than (1) a trustee or other fiduciary holding securities under any employee benefit plan of the Corporation or (2) a corporation owned directly or indirectly by the stockholders of the Corporation in substantially the same proportions as their ownership of Stock in the Corporation immediately prior to any such occurrence, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of securities of the Corporation representing 20% or more of the total voting power of the then outstanding securities of the Corporation entitled to vote generally in the election of directors (the "Voting Stock"); (ii) individuals who are members of the Board on the date of this Agreement and any individual who becomes a member of the Board hereafter whose nomination for election as a director was approved by the affirmative vote of a majority of such Directors, cease to constitute a majority of the members of the Board; (iii) there occurs a merger or consolidation of the Corporation with any other corporation or entity, other than a merger or consolidation which would result in the Voting Stock of the Corporation immediately outstanding

prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the total voting power represented by the Voting Stock or the voting securities of such surviving entity outstanding immediately after such merger or consolidation; (iv) there occurs a sale or transfer or disposition of all or substantially all of the Corporation's assets to any other corporation or entity, other than a corporation owned directly or indirectly by the stockholders of the Corporation in substantially the same proportions as their ownership of Stock in the Corporation immediately prior to such sale, transfer or disposition; or (v) the dissolution or liquidation of the Corporation.

(e) For purposes of this Agreement, "Total Disability" shall mean an event of illness or other incapacity of Optionee resulting in Optionee's failure or inability to discharge Optionee's duties as an employee of the Corporation for ninety (90) or more days during any period of 120 consecutive days.

8. EFFECT OF TERMINATION OF EMPLOYMENT DUE TO DEATH OR TOTAL DISABILITY. In the event that Optionee's employment with the Corporation ceases or is terminated due to Optionee's death or Total Disability, Optionee (or Optionee's estate or representative, in the event of Optionee's death) may during the earlier of (i) the one (1) year period following such cessation or termination of employment or (ii) the remaining term of the Option Period, exercise the Option to the extent such Option was exercisable on the date such employment ceased or was terminated and, on such date, that portion of the Option which was not exercisable shall automatically terminate without further action by the parties hereto and, in all events, to the extent not exercised, the Option shall terminate in its entirety at the end of business on the applicable exercise period as set forth in this Paragraph 8; provided, however, the Board, in its sole discretion, may approve the full vesting to Optionee (or Optionee's estate or representative, in the event of Optionee's death) in the Option and, in such event, to the extent not previously exercised, the Option shall be exercisable in whole or in part with respect to all remaining shares of Stock covered the Option and may be exercised by Optionee (or Optionee's estate or representative, in the event of Optionee's death) at any time prior to the expiration of the Option Period.

9. RIGHT OF A STOCKHOLDER. Optionee shall not have any rights as a stockholder with respect to any shares of Stock unless and until legended certificates for such shares of such Stock are issued.

10. WITHHOLDING OF TAXES. Whenever the Corporation is required to issue shares of Stock upon exercise hereunder, the Corporation shall have the right to require the recipient to remit in cash (or with the consent of the Board, shares of Stock previously owned by the recipient or issuable upon such exercise) to the Corporation an amount sufficient to satisfy any federal, state and/or local withholding tax requirements prior to the delivery of any certificate or certificates for such shares of Stock.

11. ADJUSTMENTS. In the event of any change in the outstanding shares of Stock of the Corporation by reason of a stock dividend or distribution, recapitalization, merger,



consolidation, split-up, combination, exchange of shares or the like, the Board shall adjust the number of shares of Stock which may be issued under the Plan and shall provide for an equitable adjustment of any outstanding Option or shares of Stock issuable pursuant to an outstanding Option under the Plan.

12. COMPLIANCE WITH CERTAIN LAWS AND REGULATIONS. If the Board shall determine, in its sole discretion, that the listing, registration or qualification of the shares subject to the Option upon any securities exchange or under any law or regulation, or that the consent or approval of any governmental regulatory body is necessary or desirable in connection with the granting of the Option or the acquisition of shares thereunder, the Optionee shall supply the Board or the Corporation, as the case may be, with such certificates, representations and information as the Board or the Corporation, as the case may be, may request and shall otherwise cooperate with the Corporation in obtaining any such listing, registration, qualification, consent or approval.

13. ADDITIONAL RESTRICTIONS ON TRANSFER. The certificates representing the Stock purchased upon the exercise of the Option will bear the following legend until such shares of Stock have been registered under an effective registration statement under the 1933 Act:

The securities represented by this certificate were originally issued on \_\_\_\_\_, 19\_\_\_, have not been registered under the Securities Act of 1933, as amended, or under the securities laws of any state or other jurisdiction (together, the "Securities Laws") and may not be offered for sale, sold or otherwise transferred or encumbered in the absence of compliance with such Securities Laws and until the issuer hereof shall have received from counsel acceptable to issuer a written opinion reasonably satisfactory to issuer that the proposed transaction will not violate any applicable Securities Laws.

14. NOTICES. Any notice provided for in this Agreement must be in writing and must be either personally delivered, delivered by overnight courier, or mailed by first class mail, to the Optionee at Optionee's most recent address on file in the records of the Corporation, to the Corporation at the address set forth or established pursuant to Paragraph 3 or to such other address or to the attention of such other person as the recipient party shall have specified by prior written notice to the sending party. Any notice under this Agreement will be deemed to have been given when received.

15. SEVERABILITY. This Agreement and each provision hereof shall be valid and enforced to the fullest extent permitted by law. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision. Without limiting the generality of the foregoing, if the scope of any provision contained in this Agreement is too broad to permit enforcement to its fullest extent, such provision shall be enforced to the maximum extent permitted by law, and the parties hereby agree that such scope may be judicially modified accordingly.

16. COMPLETE AGREEMENT. This Agreement and those documents expressly referred to herein embody the complete agreement and understanding among the parties and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way.

17. COUNTERPARTS. This Agreement may be executed in separate counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same agreement.

18. SUCCESSORS AND ASSIGNS. This Agreement is intended to bind and inure to the benefit of and be enforceable by Optionee, the Corporation and their respective permitted successors and assigns (including personal representatives, heirs and legatees), and is intended to bind all successors and assigns of the respective parties, except that Optionee may not assign any of Optionee's rights or obligations under this Agreement except to the extent and in the manner expressly permitted hereby.

19. REMEDIES. Each of the parties to this Agreement will be entitled to enforce its rights under this Agreement specifically, to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights existing in its favor. The parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any party may, in its sole discretion, apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement, without the necessity of posting bond or any other security.

20. WAIVER OR MODIFICATION. Any waiver or modification of any of the provisions of this Agreement shall not be valid unless made in writing and signed by the parties hereto. A waiver by either party of any breach of this Agreement shall not operate as a waiver of any subsequent breach.

IN WITNESS WHEREOF, the parties have executed this Agreement effective on the \_\_\_\_\_ day of \_\_\_\_\_, 199 .

OPTIONEE

UNIVERSAL ELECTRONICS INC.

\_\_\_\_\_  
Signature

By: \_\_\_\_\_  
Its: \_\_\_\_\_

\_\_\_\_\_  
Print Name

Certificate Number: \_\_\_\_\_

UNIVERSAL ELECTRONICS INC.  
STOCK OPTION CERTIFICATE  
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THIS CERTIFIES THAT \_\_\_\_\_ has been awarded an OPTION to purchase \_\_\_\_\_ shares of common stock, par value \$0.01 per share, of UNIVERSAL ELECTRONICS INC. at a price per share of \$\_\_\_\_\_. This Certificate is issued in accordance with and is subject to the terms and conditions of the related Stock Option Agreement of even date herewith (the "Agreement").

THIS OPTION is not transferable except in accordance with the terms and conditions of the Agreement.

THIS OPTION shall expire ten (10) years from the date of this Certificate.

THIS OPTION shall be exercisable as to all or a portion of the number of shares set forth above as follows:

On and After the Following Dates, But Prior to Expiration -----	Maximum Percentage Taking Into Account Prior Exercises -----
_____	_____ %
_____	_____ %
_____	_____ %
_____	_____ %
_____	_____ %

IN WITNESS WHEREOF, UNIVERSAL ELECTRONICS INC. has caused this Stock Option Certificate to be signed by its duly authorized officer the \_\_\_\_ day of \_\_\_\_\_, 199\_\_.

UNIVERSAL ELECTRONICS INC.

By: \_\_\_\_\_  
Its: \_\_\_\_\_

(See Reverse for Record of Option Exercises)

STOCK OPTION AGREEMENT  
-----

THIS STOCK OPTION AGREEMENT is made as of the date set forth on the signature page hereof by and between Universal Electronics Inc., a Delaware corporation (the "Corporation") and the undersigned Optionee (the "Optionee"). As used in this Agreement, the term "Corporation" shall include, where applicable, any and all of its subsidiaries.

WHEREAS, the Board of Directors of the Corporation (the "Board") has approved the Universal Electronics Inc. 1995 Stock Incentive Plan (the "Plan") and has submitted the Plan to the stockholders of the Corporation for their approval; and

WHEREAS, the Corporation desires to grant to the Optionee an option ("Option") to purchase shares of the Corporation's common stock, par value \$0.01 per share (the "Stock"), upon the terms and conditions set forth in this Agreement;

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

1. GRANT AND DESIGNATION OF OPTION. Upon the execution and delivery of this Agreement and the related Stock Option Certificate of even date herewith (the "Certificate"), the Corporation hereby grants to the Optionee the Option to purchase the aggregate number of shares of Stock set forth on the Certificate at the price per share ("Option Price") further set forth on the Certificate. The Option granted hereunder shall not be treated as an incentive stock option within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended.

2. TERM AND EXERCISE OF OPTION. Subject to earlier termination, acceleration or cancellation of the Option as provided herein, the term of the Option shall be for that period of time also set forth on the Certificate (the "Option Period") and, subject to the provisions of this Agreement, the Option shall be exercisable at such times and as to such number of shares as determined on the schedule set forth on the Certificate.

3. METHOD OF EXERCISE. The Option may be exercised by written notice to the Corporation (the "Exercise Notice") at its offices at 1864 Enterprise Parkway West, Twinsburg, Ohio 44087 (or such other offices of the Corporation which are hereinafter designated by the Corporation) to the attention of the Secretary of the Corporation. The Exercise Notice shall state (i) the election to exercise the Option, (ii) the total number of full shares in respect to which it is being exercised, and (iii) shall be signed by the person or persons exercising the Option. The Exercise Notice shall be accompanied by the Certificate and a certified or cashier's check for the full amount of the purchase price of such shares, or as may be permitted by the Board, by certificates for shares of previously owned Stock in lieu of or in combination with such cash payment. Upon receipt of the foregoing, the Corporation shall issue the shares of Stock as to which the Option has been duly exercised and shall return the Certificate, duly endorsed to reflect such exercise, to the Optionee.

#### 4. OPTIONEE'S REPRESENTATIONS.

(a) Optionee represents and warrants that any and all shares acquired through the exercise of rights under the Option granted pursuant to this Agreement will be acquired for Optionee's own account and not with a view to, or present intention of, distribution thereof in violation of the Securities Act of 1933, as amended and the rules and regulations promulgated thereunder (the "1933 Act") and will not be disposed of in contravention of the 1933 Act.

(b) Optionee acknowledges that Optionee is able to bear the economic risk of the investment in any and all shares of Stock acquired through the exercise of rights under the Option for an indefinite period of time because the Stock has not been registered under the 1933 Act and, therefore, cannot be sold unless subsequently registered under the 1933 Act or an exemption from such registration is available.

(c) Optionee has reviewed this Agreement and has had an opportunity to ask questions and receive answers concerning the terms and conditions of the offering of Stock and has had full access to such other information concerning the Corporation as Optionee has requested.

5. RESTRICTION ON EXERCISE. This Option may not be exercised if the issuance of such shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulation. As a condition to the exercise of this Option, the Corporation may require Optionee to make any representation and warranty to the Corporation as may be required by any applicable law or regulation. All exercises of the Option must be for full shares of Stock only. In addition, Optionee must continuously serve as a "Non-affiliated Director" (as such term is defined within the Plan) of the Corporation for a period of twelve (12) consecutive months from the date of this Agreement before Optionee can exercise any part of the Option granted hereby.

#### 6. EFFECT OF CEASING TO BE A NON-AFFILIATED DIRECTOR OF THE CORPORATION.

(a) In the event that Optionee's service with the Corporation terminates by reason of Optionee's death, Total Disability, retirement from active service as a director of the Corporation, or if Optionee ceases being a Non-affiliated Director of the Corporation, Optionee (or Optionee's estate or representative, in the event of Optionee's death) may during the earlier of (i) the three (3) year period following such cessation or termination or (ii) the remaining term of the Option Period, exercise the option to the extent such Option would on the date of exercise have been exercisable if Optionee had continued to serve as a Non-affiliated Director of the Corporation, and, in all events, to the extent not exercised, the Option shall terminate in its entirety at the end of business on the applicable exercise period as set forth in this subparagraph 6(a).

(b) For purposes of this Agreement, "Total Disability" shall mean an event of illness or other incapacity of Optionee resulting in Optionee's failure or inability to discharge

Optionee's duties as a Non-affiliated Director of the Corporation for ninety (90) or more days during any period of 120 consecutive days.

7. RIGHT OF A STOCKHOLDER. Optionee shall not have any rights as a stockholder with respect to any shares of Stock unless and until legended certificates for such shares of such Stock are issued.

8. WITHHOLDING OF TAXES. Whenever the Corporation is required to issue shares of Stock upon exercise hereunder, the Corporation shall have the right to require the recipient to remit in cash (or with the consent of the Board, shares of Stock previously owned by the recipient or issuable upon such exercise) to the Corporation an amount sufficient to satisfy any federal, state and/or local withholding tax requirements prior to the delivery of any certificate or certificates for such shares of Stock.

9. ADJUSTMENTS. In the event of any change in the outstanding shares of Stock of the Corporation by reason of a stock dividend or distribution, recapitalization, merger, consolidation, split-up, combination, exchange of shares or the like, the Board shall adjust the number of shares of Stock which may be issued under the Plan and shall provide for an equitable adjustment of any outstanding Option or shares of Stock issuable pursuant to an outstanding Option under the Plan.

10. COMPLIANCE WITH CERTAIN LAWS AND REGULATIONS. If the Board shall determine, in its sole discretion, that the listing, registration or qualification of the shares subject to the Option upon any securities exchange or under any law or regulation, or that the consent or approval of any governmental regulatory body is necessary or desirable in connection with the granting of the Option or the acquisition of shares thereunder, the Optionee shall supply the Board or the Corporation, as the case may be, with such certificates, representations and information as the Board or the Corporation, as the case may be, may request and shall otherwise cooperate with the Corporation in obtaining any such listing, registration, qualification, consent or approval.

11. ADDITIONAL RESTRICTIONS ON TRANSFER. The certificates representing the Stock purchased upon the exercise of the Option will bear the following legend until such shares of Stock have been registered under an effective registration statement under the 1933 Act:

The securities represented by this certificate were originally issued on \_\_\_\_\_, 19\_\_\_\_, have not been registered under the Securities Act of 1933, as amended, or under the securities laws of any state or other jurisdiction (together, the "Securities Laws") and may not be offered for sale, sold or otherwise transferred or encumbered in the absence of compliance with such Securities Laws and until the issuer hereof shall have received from counsel acceptable to issuer a written opinion reasonably satisfactory to issuer that the proposed transaction will not violate any applicable Securities Laws.

12. NOTICES. Any notice provided for in this Agreement must be in writing and must be either personally delivered, delivered by overnight courier, or mailed by first class mail, to the Optionee at Optionee's most recent address on file in the records of the Corporation, to the Corporation at the address set forth or established pursuant to Paragraph 3 or to such other address or to the attention of such other person as the recipient party shall have specified by prior written notice to the sending party. Any notice under this Agreement will be deemed to have been given when received.

13. SEVERABILITY. This Agreement and each provision hereof shall be valid and enforced to the fullest extent permitted by law. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision. Without limiting the generality of the foregoing, if the scope of any provision contained in this Agreement is too broad to permit enforcement to its fullest extent, such provision shall be enforced to the maximum extent permitted by law, and the parties hereby agree that such scope may be judicially modified accordingly.

14. COMPLETE AGREEMENT. This Agreement and those documents expressly referred to herein embody the complete agreement and understanding among the parties and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way.

15. COUNTERPARTS. This Agreement may be executed in separate counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same agreement.

16. SUCCESSORS AND ASSIGNS. This Agreement is intended to bind and inure to the benefit of and be enforceable by Optionee, the Corporation and their respective permitted successors and assigns (including personal representatives, heirs and legatees), and is intended to bind all successors and assigns of the respective parties, except that Optionee may not assign any of Optionee's rights or obligations under this Agreement except to the extent and in the manner expressly permitted hereby.

17. REMEDIES. Each of the parties to this Agreement will be entitled to enforce its rights under this Agreement specifically, to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights existing in its favor. The parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any party may, in its sole discretion, apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement, without the necessity of posting bond or any other security.

18. WAIVER OR MODIFICATION. Any waiver or modification of any of the provisions of this Agreement shall not be valid unless made in writing and signed by the parties hereto. A

waiver by either party of any breach of this Agreement shall not operate as a waiver of any subsequent breach.

IN WITNESS WHEREOF, the parties have executed this Agreement effective on the \_\_\_ day of \_\_, 199\_\_.

OPTIONEE

UNIVERSAL ELECTRONICS INC.

\_\_\_\_\_  
Signature

By: \_\_\_\_\_  
Its: \_\_\_\_\_

\_\_\_\_\_  
Print Name



Certificate Number: \_\_\_\_\_

UNIVERSAL ELECTRONICS INC.  
STOCK OPTION CERTIFICATE  
-----

THIS CERTIFIES THAT \_\_\_\_\_ has been awarded an OPTION to purchase \_\_\_\_\_ shares of common stock, par value \$0.01 per share, of UNIVERSAL ELECTRONICS INC. at a price per share of \$\_\_\_\_. This Certificate is issued in accordance with and is subject to the terms and conditions of the related Stock Option Agreement of even date herewith (the "Agreement").

THIS OPTION is not transferable except in accordance with the terms and conditions of the Agreement.

THIS OPTION shall expire ten (10) years from the date of this Certificate.

THIS OPTION shall be exercisable as to all or a portion of the number of shares set forth above as follows:

On and After the Following Dates, But Prior to Expiration -----	Maximum Percentage Taking Into Account Prior Exercises -----
-----	--%
-----	--%
-----	--%
-----	--%

IN WITNESS WHEREOF, UNIVERSAL ELECTRONICS INC. has caused this Stock Option Certificate to be signed by its duly authorized officer the \_\_ Day of \_\_\_\_\_ 199\_\_.

UNIVERSAL ELECTRONICS INC.

By: \_\_\_\_\_

Its: \_\_\_\_\_

(See Reverse for Record of Option Exercises)

## FIRST AMENDMENT TO LOAN SECURITY AGREEMENT

This First Amendment to Loan and Security Agreement ("Amendment") is entered into by and among The Provident Bank ("Bank") and Universal Electronics Inc., a Delaware corporation ("Borrower").

## RECITALS

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A. On November 21, 1995, Borrower and Bank entered into a Loan and Security Agreement (the "Loan Agreement"). Under and subject to the terms and conditions of the Loan Agreement, Bank agreed to provide a credit facility to Borrower in the original maximum aggregate principal amount of Twenty Two Million Dollars (\$22,000,000).

B. Borrower and Bank desire to amend the Loan Agreement to, among other things, permit Borrower to repurchase certain of its issued and outstanding capital stock, all as set forth in and subject to the terms and provisions of this Amendment.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which is acknowledged, it is hereby agreed as follows:

1. DEFINED TERMS. Except to the extent otherwise set forth in this Amendment, all terms used in this Amendment which are defined in the Loan Agreement are used in this Amendment with the same meanings given them in the Loan Agreement.

2. AMENDMENT. The Loan Agreement is amended by adding Section 1.16 reading as follows:

" 1.16 On and after the date of this Amendment, each reference in the Loan Agreement to "this Agreement", "hereunder" and "hereof" and words of like import referring to the Loan Agreement shall mean and refer to the Loan Agreement as amended by this Amendment."

3. REPURCHASE OF CAPITAL STOCK. Notwithstanding any provision in the Loan Agreement or other Loan Documents to the contrary, Borrower is expressly authorized to proceed to repurchase as

many as 1,000,000 shares of its issued and outstanding common stock, and any share of the common stock so repurchased shall not be deemed Collateral and nothing contained within the Loan Agreement shall preclude Borrower from dealing in such stock (and proceeds thereof) as it deems appropriate.

4. FINANCIAL COVENANTS. The first sentence of Section 5.15(a) of the Loan Agreement is revised in its entirety to read as follows:

"Consolidated Tangible Net Worth of not less than \$48,500,000 on December 31, 1995, and, thereafter, not less than \$48,000,000 less the aggregate amount expended by Borrower to repurchase its capital stock as permitted hereunder but in no event to be decreased below \$40,500,000, which minimum shall increase by seventy-five percent (75%) of net income if positive on December 31, 1996 and on December 31 of each year thereafter."

5. INVENTORY. Section 6.11 of the Loan Agreement shall be revised in its entirety to read as follows:

"Maintain Inventory in excess of \$35,000,000."

6. REPRESENTATIONS, WARRANTIES AND COVENANTS OF BORROWER. To induce Bank to enter into this Amendment and to make (i) future advances, and (ii) other financial accommodations under the Loan Agreement, Borrower represents and warrants to Bank that:

(a) Borrower has the right and power and is duly authorized and empowered to enter into, execute, deliver and perform its obligations under this Amendment and every other document required to be delivered by it pursuant to this Amendment. This Amendment and every other document required to be delivered by Borrower pursuant to this Amendment and to which Borrower is a party have each been duly authorized and approved by the Board of Directors of Borrower and are the valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms. The execution, delivery and performance

of this Amendment and every other document required to be delivered by Borrower pursuant to this Amendment and to which Borrower is a party will not conflict with nor result in any breach of the provisions of, or constitute a default under, or result in the creation of any lien (other than permitted liens) upon any asset or property of Borrower under the provisions of the Restated Certificate of Incorporation, as amended, or the Amended and Restated Bylaws of Borrower or any material indenture, agreement or other instrument to which Borrower is a party or by which its assets or properties are bound.

(b) The representations, warranties and covenants set forth in this Amendment, as well as all representations, warranties and covenants in the Loan Agreement (except to the extent that all such representations, warranties and covenants relate to terms or documents that have been amended or deleted, as the case may be) shall continue in effect and shall be binding on Borrower under, and shall survive the execution of, this Amendment, for the term set forth in Section 4.19 of the Loan Agreement.

7. CONTINUED EFFECTIVENESS. Notwithstanding anything contained herein, the terms of this Amendment are not intended to and do not serve to effect a novation of the Loan Agreement, the Notes or any of the other Loan Documents. The parties hereto expressly do not intend to extinguish the Loan Agreement, the Notes or any of the other Loan Documents. Instead, it is the express intention of the parties hereto to reaffirm the existence of the indebtedness created under the Loan Agreement, the Notes and the other Loan Documents. Except as otherwise expressly provided herein or in any of the documents delivered hereunder, the Loan Agreement, as amended by this Amendment, and each of the Loan Documents related thereto, remains in full force and effect. The execution, delivery, and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of Bank under the Loan Agreement or any of the other Loan Documents to which Bank is a party, nor constitute

a waiver of any provision in, or Event of Default (now or hereafter existing) under, the terms of the Loan Agreement or any of the other Loan Documents, except to the extent that any such term is amended or deleted.

8. CONDITIONS PRECEDENT. Borrower acknowledges that the effectiveness of this Amendment is subject to the satisfaction of the following conditions and receipt by Bank on the date hereof, in form and substance reasonably satisfactory to Bank and its counsel, of the following documents:

(a) Where applicable, the Schedules and Exhibits to Loan Agreement replacing Schedules and Exhibits delivered at the closing.

(b) A certificate signed by the Treasurer of Borrower and dated the date of this Amendment, stating that (i) the representations and warranties set forth in Section 6 of this Amendment are true and correct on and as of such date, (ii) such Borrower is on such date in compliance with all of the terms and provisions set forth in this Amendment, and (iii) on such date no event or condition has occurred or is continuing which with the giving of notice, the lapse of time, or both, would constitute an Event of Default.

(c) A certificate of the Secretary of Borrower, dated the date of this Amendment, certifying that (a) attached thereto is a true and complete copy of the resolutions, in form reasonably satisfactory to Bank, adopted by the Board of Directors of Borrower, authorizing the execution, delivery and performance of the Amendment and every other document required to be delivered by Borrower pursuant to the Amendment and the consummation of the transactions contemplated hereby and thereby and that said resolutions are all of the resolutions adopted with respect to said subject matter and remain in full force and effect without modification, and (b)

attached thereto is a certified copy of Borrower's Certificate of Incorporation and a true and complete copy of Borrower's Bylaws.

(d) Good standing certificates for Borrower issued by the Secretary of State of Delaware, and every other jurisdiction in which the qualification of any of Borrower is required hereunder.

(e) There shall have occurred no material adverse changes to the other facts and circumstances upon which Bank has based its credit analysis and approval of which Borrower has knowledge.

(f) Borrower shall have paid all fees and expenses referred to in Section 9 below.

9. FEES AND EXPENSES. Borrower acknowledges and agrees that the fees and expenses of Bank incurred in connection with this Amendment, all documents executed and delivered in connection with this Amendment and the consummation of the transactions contemplated hereby, including, without limitation, reasonable attorneys' and paralegals' fees and disbursements (which amounts shall not exceed \$2,000), will be payable by Borrower to Bank, or as Bank may otherwise direct, on the date of this Amendment, and are additional Obligations under the Loan Agreement secured by the Collateral pursuant to the Loan Agreement.

10. APPLICABLE LAW. This Amendment shall be deemed to be a contract under the laws of the State of Ohio and for all purposes shall be construed in accordance with the laws of such state.

11. COUNTERPARTS. This Amendment may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and either of the parties hereto may execute this Amendment by signing any such counterpart.

IN WITNESS WHEREOF, the parties have executed this Amendment by their duly authorized officers effective as of the 31st day of July, 1996

THE PROVIDENT BANK

UNIVERSAL ELECTRONICS INC.

By: /s/ James M. Hojnacki

By: /s/ Paul Arling

-----  
Vice President

-----  
Treasurer

SCHEDULE 4.8  
TO THE FIRST AMENDMENT TO THE  
LOAN AND SECURITY AGREEMENT  
BETWEEN  
THE PROVIDENT BANK  
AND  
UNIVERSAL ELECTRONICS INC.  
  
LITIGATION

PHILIPS ELECTRONICS CORPORATION OF NORTH AMERICA V. UNIVERSAL ELECTRONICS INC.,  
APPEAL NO.: 96-1475 IN THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL  
CIRCUIT. Appeal by Philips from the order of the U.S. District Court for the  
District of Delaware (Judge McKelvie) (Civil Action No. CA 94-392-RPM) ruling in  
favor of Borrower in a patent infringement matter in which Philips claimed  
Borrower infringed Philips' United States patent number 4,703,359.

UNIVERSAL ELECTRONICS INC. V. THE UNITED STATES, 96-1345 IN THE UNITED STATES  
COURT OF APPEALS FOR THE FEDERAL CIRCUIT. Appeal by Borrower from the order of  
the United States Court of International Trade (Judge Goldberg) (Consolidated  
Court No. 93-11-00740) ruling in favor of the Government's classification of  
universal infrared remote controls (Slip Opinion 96-48).

UNIVERSAL ELECTRONICS INC. Prior Disclosure Administrative Matter brought to the  
attention of US Customs by Borrower regarding incorrect classification of  
earlier entries. Action reactivated due to recent decision by United States  
Court of international Trade in United States v. Snuggles, Inc. (Slip Opinion  
96-141) decided on August 20, 1996.

ROBERT D. GORDON V. UNIVERSAL ELECTRONICS INC, APPEAL CASE NO.: 18071 IN THE  
NINTH DISTRICT COURT OF APPEAL, SUMMIT COUNTY, OHIO. Appeal by Gordon (an  
ex-employee of Borrower), from order of the Court of Common Pleas, Summit  
County, Ohio (Judge Callahan) granting Borrower's motion for summary judgment  
(entered on August 6, 1996) in Gordon's claims against Borrower and Messrs.  
Gabrielsen and Gabbert (Case No. CV 95 07 2602 in the Court of Common Pleas,  
Summit County, Ohio) alleging unlawful employment discrimination and wrongful  
discharge because of age and acts of conspiracy against Mr. Gordon. Gordon had  
earlier dismissed, with prejudice, his claims against Messrs. Gabrielsen and  
Gabbert.

JASCO PRODUCTS CO., INC. V. UNIVERSAL ELECTRONICS INC. CIV-95-1988T IN THE  
UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF OKLAHOMA (CONSOLIDATED  
WITH UNIVERSAL ELECTRONICS INC. V. JASCO PRODUCTS CO., INC. CASE NO. 5:96CV0029  
IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF OHIO). Action  
by Jasco against Borrower alleging breach of contract, generally, and  
counterclaim by Borrower against Jasco also alleging breach of contract,  
generally.



SCHEDULE 4.8  
TO THE FIRST AMENDMENT TO THE  
LOAN AND SECURITY AGREEMENT  
BETWEEN  
THE PROVIDENT BANK  
AND  
UNIVERSAL ELECTRONICS INC.

LITIGATION  
(CONTINUED)

SENTRY SWITCH INC. V. UNIVERSAL ELECTRONICS INC. A-96-04394 IN THE COURT OF COMMON PLEAS, HAMILTON COUNTY, OHIO. Claim by Sentry Switch against Borrower alleging breach of contract, generally.

Various other administrative claims for workers' compensation and unemployment.

SCHEDULE 4.9  
TO THE FIRST AMENDMENT TO THE  
LOAN AND SECURITY AGREEMENT  
BETWEEN  
THE PROVIDENT BANK  
AND  
UNIVERSAL ELECTRONICS INC.  
  
COMPLIANCE WITH LAWS

In the event that Borrower is found liable under any of the litigation matters to which Borrower is a party (see Schedule 4.8 - Litigation attached to the First Amendment to the Loan and Security Agreement), Borrower would be deemed to have violated the applicable laws related to the claims made in connection with such matters.

SCHEDULE 4.10  
TO THE FIRST AMENDMENT TO THE  
LOAN AND SECURITY AGREEMENT  
BETWEEN  
THE PROVIDENT BANK  
AND  
UNIVERSAL ELECTRONICS INC.  
  
NO DEFAULT

In the event that Borrower is found liable under any of the litigation matters to which Borrower is a party (see Schedule 4.8 - Litigation attached to the First Amendment to the Loan and Security Agreement), Borrower would be deemed to be in default of the various contracts related to the claims made in connection with such matters.

SCHEDULE 4.13  
TO THE FIRST AMENDMENT TO THE  
LOAN AND SECURITY AGREEMENT  
BETWEEN  
THE PROVIDENT BANK  
AND  
UNIVERSAL ELECTRONICS INC.

RIGHTS OF BORROWER TO ACCOUNTS

In the event that Jasco prevails in its claims against Borrower in the litigation between them (see Schedule 4.8 - Litigation attached to the First Amendment to the Loan and Security Agreement), Jasco may be allowed to offset amounts to which it has been awarded in such litigation against amounts due Borrower as reflected as an Account in Borrower's books and records.

[WARLAND INVESTMENTS COMPANY LOGO]  
[WARLAND INVESTMENTS COMPANY LETTERHEAD]

February 19, 1997

Ms. Birdie Kopp  
Chief Financial Officer  
Ikon Office Solutions, Inc.  
16715 Von Karman, Suite 100  
Irvine, CA 92606

Re: Consent to Sublease ("Consent") between Edgemont Sales Company, a division of IKON Office Solutions ("Sublessor") to Universal Electronics, Inc., a Delaware corporation ("Sublessee") for the premises located at 6101 Gateway Drive, Cypress, California (the "Premises")

Dear Ms. Kopp:

You have asked that Warland Investments Company, a California limited partnership, formerly Warland Investments, Ltd., a California limited partnership ("Warland"), as owner of the Premises leased to Sublessor under the lease between Warland and Sublessor, dated May 31, 1988, as amended by those certain amendments dated January 15, 1989 and October 18, 1991 (collectively, the "Master Lease"), consent to the sublease of the Premises (the "Subleased Space") to Sublessee (the "Sublease"). Please be advised that Warland grants its consent to the Sublease upon the following terms and conditions:

1. The Sublease shall be in the form and content of attached EXHIBIT A. Sublessee shall perform faithfully and promptly and be bound by all terms, conditions and covenants of the Master Lease, attached hereto as Exhibit B, except those inconsistent with the Sublease. Notwithstanding the foregoing, (i) all claims of Sublessee under the Sublease or the Master Lease (collectively, the "Leases") shall be brought only against Sublessor, and Sublessee shall have no claims against Warland thereunder, (ii) Sublessor shall under no circumstances assign any claims under the leases to Sublessee for prosecution against Warland, and (iii) Sublessee shall have no right to further assign or sublease its interest in the Sublease or the Subleased Space without obtaining Warland's prior written consent (which consent shall be given or withheld in accordance with the terms of the Master Lease).

2. The Sublease shall at all times remain subordinate, inferior and subject to the Master Lease. Notwithstanding any provisions in the Sublease to the contrary, under no circumstances shall the term of the Sublease extend beyond the term of the Master Lease.

Ms. Birdie Kopp  
February 19, 1997  
Page Two

3. All insurance obtained by Sublessee under the Sublease shall name Warland as an additional insured and shall require thirty (30) days advance written notice to Warland in the event of cancellation of such insurance.

4. Under no circumstances shall this consent (a) release or discharge Sublessor from any liability to Warland, whether past, present or future, (b) be construed to modify, waive or affect any of the terms, covenants, conditions or provisions of the Master Lease, to waive any breach thereof, or to enlarge or increase the obligations of Warland thereunder, or (C) be construed as a consent by Warland to any further assignment or subletting.

5. Sublessor warrants and represents to Warland that as of the date of this consent (i) the Master Lease is in full force and effect, (ii) Warland is not in default under any provision of the Master Lease, (iii) no rent has been prepaid under the Master Lease, and (iv) there are no offsets or other claims by Sublessor against Warland.

6. Warland's consent to the Sublease is not a consent to any alterations or improvements to the Subleased Space, other than the alterations and improvements depicted on those certain plans prepared by Howard F. Thompson & Associates, dated February 10, 1997, which have been submitted to Warland and are hereby approved. Sublessee shall not permit any mechanic's or materialmen's liens to be recorded against the Premises as a result of any work undertaken on its behalf. In the event a mechanic's or materialmen's lien is recorded against the Premises, Sublessee shall, within thirty (30) days after notice from Warland, either (i) remove the lien by payment of the secured claim, or (ii) obtain a release bond in the statutory amount. The provisions of this paragraph do not modify the respective rights and obligations of Warland and Sublessor as set forth in Section 5.3 of the Master Lease.

7. Sublessor's rights under Section 9 of the Sublease shall be subject to the terms and conditions of Section 9 of the Master Lease.

8. Sublessor and Sublessee agree that under no circumstances shall Warland be liable for any brokerage commission, fee, or other charge or expense in connection with the Sublease, and both Sublessor and Sublessee agree to indemnify, defend and hold Warland harmless from and against any claims, cost, expenses (including attorneys' fees), damages, liability incurred by Warland in connection with any claim for such brokerage commission or fee.

9. This Consent is effective only upon counter-execution without modifications

Ms. Birdie Kopp  
February 19, 1997  
Page Three

by authorized signatories of Sublessor and Sublessee and is not assignable.

Very truly yours,

WARLAND INVESTMENTS COMPANY,  
California limited partnership

By: /s/ Carl W. Robertson  
-----  
Carl W. Robertson  
Co-Managing Director

By: /s/ John C. Law  
-----  
John C. Law  
Co-Managing Director

AGREED TO AND ACCEPTED this  
25 day of February, 1997:

"Sublessor"

EDGEMONT SALES COMPANY,  
a division of IKON OFFICE SOLUTIONS, INC.

By: /s/ Birdie Kopp  
-----  
Birdie Kopp  
Chief Financial Officer

"Sublessee"

UNIVERSAL ELECTRONICS, INC.  
a Delaware corporation

By: /s/ Mark Kopaskie  
-----  
Name: Mark Kopaskie  
Executive Vice President, C.O.O.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Plant Engineer

EXHIBIT "A"

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THE SUBLEASE

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(See Attached)



[CB COMMERCIAL LOGO] SUBLEASE

CB COMMERCIAL REAL ESTATE GROUP, INC.  
BROKERAGE AND MANAGEMENT  
LICENSED REAL ESTATE BROKER

1. PARTIES.

This Sublease, dated January 10, 19 97, is made between Edgemont Sales Company, a division of IKON Office Solutions, Inc. ("Sublessor"), and Universal Electronics, Inc., a Delaware Corporation ("Sublessee").

2. MASTER LEASE.

Sublessor is the lessee under a written lease dated May 31, 19 88 wherein Warland Investments, Ltd. ("Lessor") leased to Sublessor the real property located in the City of Cypress, County of Orange, State of California, described as that certain approximately 30,768 square foot free standing building located at 6101 Gateway Drive, situated on lot AP# 134-431-19 ("Master Premises"). Said lease has been amended by the following amendments; said lease and amendments are collectively referred to as the "Master Lease" and are attached hereto as Exhibit "A."

3. PREMISES.

Sublessor hereby subleases to Sublessee on the terms and conditions set forth in this Sublease the following portion of the Master Premises ("Premises"): the entire premises as described in section "2. Master Lease" above.

4. WARRANTY BY SUBLESSOR.

Sublessor warrants and represents to Sublessee that the Master Lease has not been amended or modified except as expressly set forth herein, that Sublessor is not now, and as of the commencement of the Term hereof will not be, in default or breach of any of the provisions of the Master Lease, and that Sublessor has no knowledge of any claim by Lessor that Sublessor is in default or breach of any of the provisions of the Master Lease.

5. TERM.

The Term of this Sublease shall commence on February 10, 19 97 ("Commencement Date"), or when Lessor consents to this Sublease (if such consent is required under the Master Lease), whichever shall last occur, and end on December 31, 19 98 ("Termination Date"), unless otherwise sooner terminated in accordance with the provisions of this Sublease. In the event the Term commences on a date other than the Commencement Date, Sublessor and Sublessee shall execute a memorandum setting forth the actual date of commencement of the Term. Possession of the Premises ("Possession") shall be delivered to Sublessee on the commencement of the Term. If for any reason Sublessor does not deliver Possession to Sublessee on the commencement of the Term, Sublessor shall not be subject to any liability for such failure, the Termination Date shall not be extended by the delay, and the validity of this Sublease shall not be impaired, but rent shall abate until delivery of Possession. Notwithstanding the foregoing, if Sublessor has not delivered Possession to Sublessee within thirty (30) days after the Commencement Date, then at any time thereafter and before delivery of Possession, Sublessee may give written notice to Sublessor of Sublessee's intention to cancel this Sublease. Said notice shall set forth an effective date for such cancellation which shall be at least ten (10) days after delivery of said notice to Sublessor. If Sublessor delivers Possession to Sublessee on or before such effective date, this Sublease shall remain in full force and effect. If Sublessor fails to deliver Possession to Sublessee on or before such effective date, this Sublease shall be cancelled, in which case all consideration previously paid by Sublessee to Sublessor on account of this Sublease shall be returned to Sublessee, this Sublease shall thereafter be of no further force or effect, and Sublessor shall have no further liability to Sublessee on account of such delay or cancellation. If Sublessor permits Sublessee to take Possession prior to the commencement of the Term, such early Possession shall not advance the Termination Date and shall not be subject to the provisions of this Sublease, including without limitation the payment of rent.

6. RENT.

6.1 Minimum Rent. Sublessee shall pay to Sublessor as minimum rent, without deduction, setoff, notice, or demand, at 16715 Von Karman, Suite 100, Irvine, CA 92606 or at such other place as Sublessor shall designate from time to time by notice to Sublessee, the sum of Sixteen Thousand Nine Hundred Twenty-two & No/100ths Dollars (\$16,922.00)

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per month, in advance on the first day of each month of the Term. Sublessee shall pay to Sublessor upon execution of this Sublease the sum of

Sixteen Thousand Nine Hundred Twenty-two & No/100ths Dollars (\$16,922.00)

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as rent for the month of April 1-30, 1997  
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If the Term begins or ends on a day other than the first or last day of a month, the rent for the partial months shall be prorated on a per diem basis. Additional provisions: \_\_\_\_\_

6.2 Operating Costs. If the Master Lease requires Sublessor to pay to Lessor all or a portion of the expenses of operating the building and/or project of which the Premises are a part ("Operating Costs"), including but not limited to taxes, utilities, or insurance, then Sublessee shall pay to Sublessor as additional rent Sublessor's actual costs [percent ( %) of the

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amounts] payable by Sublessor for Operating Costs incurred during the Term. Such

Language indicated as being shown by strike out in the typeset document is enclosed in brackets "["and"]" in the electronic format.

additional rent shall be payable as and when Operating Costs are payable by Sublessor to Lessor. If the Master Lease provides for the payment by Sublessor or Operating Costs on the basis of an estimate thereof, then as and when adjustments between estimated and actual Operating Costs are made under the Master Lease, the obligations of Sublessor and Sublessee hereunder shall be adjusted in a like manner; and if any such adjustment shall occur after the expiration or earlier termination of the Term, then the obligations of Sublessor and Sublessee under this Subsection 6.2 shall survive such expiration or termination. Sublessor shall, upon request by Sublessee, furnish Sublessee with copies of all statements submitted by Lessor of actual or estimated Operating Costs during the Term.

7. SECURITY DEPOSIT.

Sublessee shall deposit with Sublessor upon execution of this Sublease the sum of Thirty-three Thousand Eight Hundred forty-four and No/100ths----- Dollars (\$33,844.00) as security for Sublessee's

faithful performance of Sublessee's obligations hereunder ("Security Deposit"). If Sublessee fails to pay rent or other charges when due under this Sublease, or fails to perform any of its other obligations hereunder, Sublessor may use or apply all or any portion of the Security Deposit for the payment of any rent or other amount then due hereunder and unpaid, for the payment of any other sum for which Sublessor may become obligated by reason of Sublessee's default or breach, or for any loss or damage sustained by Sublessor as a result of Sublessee's default or breach. If Sublessor so uses any portion of the Security Deposit, Sublessee shall, within ten (10) days after written demand by Sublessor, restore the Security Deposit to the full amount originally deposited, and Sublessee's failure to do so shall constitute a default under this Sublease. Sublessor shall not be required to keep the Security Deposit separate from its general accounts, and shall have no obligation or liability for payment of interest on the Security Deposit. In the event Sublessor assigns its interest in this Sublease, Sublessor shall deliver to its assignee so much of the Security Deposit as is then held by Sublessor. Within ten (10) days after the Term has expired, or Sublessee has vacated the Premises, or any final adjustment pursuant to Subsection 6.2 hereof has been made, whichever shall last occur, and provided Sublessee is not then in default of any of its obligations hereunder, the Security Deposit, or so much thereof as had not theretofore been applied by Sublessor, shall be returned to Sublessee or to the last assignee, if any, of Sublessee's interest hereunder.

8. USE OF PREMISES.

The Premises shall be used and occupied only for warehousing, distribution and engineering of electronic components, and for no other use or purpose.

9. ASSIGNMENT AND SUBLETTING.

Sublessee shall not assign this Sublease or further sublet all or any part of the Premises without the prior written consent of Sublessor (and the consent of Lessor, if such is required under the terms of the Master Lease).

10. OTHER PROVISIONS OF SUBLEASE.

All applicable terms and conditions of the Master Lease are incorporated into and made a part of this Sublease as if Sublessor were the lessor thereunder, Sublessee the lessee thereunder, and the Premises the Master Premises, except for the following: There shall be an abatement of rent during the months of February 1 - March 31, 1997.

Sublessee assumes and agrees to perform the lessee's obligations under the Master Lease during the Term to the extent that such obligations are applicable to the Premises, except that the obligation to pay rent to Lessor under the Master Lease shall be considered performed by Sublessee to the extent and in the amount rent is paid to Sublessor in accordance with Section 6 of this Sublease. Sublessee shall not commit or suffer any act or omission that will violate any of the provisions of the Master Lease. Sublessor shall exercise due diligence in attempting to cause Lessor to perform its obligations under the Master Lease for the benefit of Sublessee. If the Master Lease terminates, this Sublease shall terminate and the parties shall be relieved of any further liability or obligation under this Sublease, provided however, that if the Master Lease terminates as a result of a default or breach by Sublessor or Sublessee under this Sublease and/or the Master Lease, then the defaulting party shall be liable to the nondefaulting party for the damage suffered as a result of such termination. Notwithstanding the foregoing, if the Master Lease gives Sublessor any right to terminate the Master Lease in the event of the partial or total damage, destruction, or condemnation of the Master Premises or the building or project of which the Master Premises are a part, the exercise of such right by Sublessor shall not constitute a default or breach hereunder.

11. ATTORNEYS' FEES.

If Sublessor, Sublessee, or Broker shall commence an action against the other arising out of or in connection with this Sublease, the prevailing party shall be entitled to recover its costs of suit and reasonable attorney's fees.

12. AGENCY DISCLOSURE.

Sublessor and Sublessee each warrant that they have dealt with no other

real estate broker in connection with this transaction except: CB  
COMMERCIAL REAL ESTATE GROUP, INC., who represents the Sublessor

-----,  
and Grubb & Ellis, who represents the Sublessee .

-----  
In the event that CB COMMERCIAL REAL ESTATE GROUP, INC. represents both the  
Sublessor and Sublessee, Sublessor and Sublessee hereby confirm that they  
were timely advised of the dual representation and that they consent to the  
same, and that they do not expect said broker to disclose to either of them  
the confidential information of the other party.

13. COMMISSION.

Upon execution of this Sublease, and consent thereto by Lessor (if such  
consent is required under the terms of the Master Lease), Sublessor shall  
pay Broker a real estate brokerage commission in accordance with  
Sublessor's contract with Broker for the subleasing of the Premises, if  
any, and otherwise in the amount of per agreement

-----  
Dollars (\$\_\_\_\_\_), for services rendered in effecting this Sublease.  
Broker is hereby made a third party beneficiary of this Sublease for  
the purpose of enforcing its right to said commission.

14. NOTICES.

All notices and demands which may or are to be required or permitted to be  
given by either party on the other hereunder shall be in writing. All  
notices and demands by the Sublessor to Sublessee shall be sent by United  
States Mail, postage prepaid, addressed to the Sublessee at the Premises,  
and to the address hereinbelow, or to such other place as Sublessee may  
from

time to time designate in a notice to the Sublessor. All notices and demands by the Sublessee to Sublessor shall be sent by United States Mail, postage prepaid, addressed to the Sublessor at the address set forth herein, and to such other person or place as the Sublessor may from time to time designate in a notice to the Sublessee.

To Sublessor: IKON Office Solutions, Inc., Attention: Real Estate
-----
Department, 825 Duportail Road, Wayne, PA 19087
-----

To Sublessee: Universal Electronics, 1864 Enterprise Parkway, West,
-----
Twinsburg, OH 44087
-----

15. CONSENT BY LESSOR.

THIS SUBLEASE SHALL BE OF NO FORCE OR EFFECT UNLESS CONSENTED TO BY LESSOR WITHIN 10 DAYS AFTER EXECUTION HEREOF, IF SUCH CONSENT IS REQUIRED UNDER THE TERMS OF THE MASTER LEASE.

16. COMPLIANCE.

The parties hereto agree to comply with all applicable federal, state and local laws, regulations, codes, ordinances and administrative orders having jurisdiction over the parties, property or the subject matter of this Agreement, including, but not limited to, the 1964 Civil Rights Act and all amendments thereto, the Foreign Investment in Real Property Tax Act, the Comprehensive Environmental Response Compensation and Liability Act, and The Americans With Disabilities Act.

Sublessor: IKON Office Solutions, Inc.

Sublessee: Universal Electronics

By: /s/ Birdie Kopp

By: /s/ Mark Kopaskie

Title: CFO

Title: EXC. V.P. C.O.O.

By:

By: /s/ Bret A. Belknap

Title:

Title: Plant Engineer

Date: 2/17/97

Date: 2-10-97

LESSOR'S CONSENT TO SUBLEASE

The undersigned ("Lessor"), lessor under the Master Lease, hereby consents to the foregoing Sublease without waiver of any restriction in the Master Lease concerning further assignment or subletting. Lessor certifies that, as of the date of Lessor's execution hereof, Sublessor is not in default or breach of any of the provisions of the Master Lease, and that the Master Lease has not been amended or modified except as expressly set forth in the foregoing Sublease.

Lessor: Warland Investments, Ltd.

By:

Title:

By:

Title:

Date:

CONSULT YOUR ADVISORS -- This document has been prepared for approval by your attorney. No representation or recommendation is made by Broker as to the legal sufficiency or tax consequences of this document or the transaction to which it relates. These are questions for your attorney.

In any real estate transaction, it is recommended that you consult with a professional, such as a civil engineer, industrial hygienist or other person, with experience in evaluating the condition of the property, including the possible presence of asbestos, hazardous materials and underground storage tanks.

EXHIBIT "B"  
-----

THE MASTER LEASE  
-----

(See Attached)

AMENDMENT TO LEASE  
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THIS AMENDMENT TO LEASE (this "Amendment") is made and entered into as of this 15th day of January, 1989, by and between WARLAND INVESTMENT, LTD., a California limited partnership ("Warland"); and EDMONT SALES COMPANY, INC., a California corporation ("Edgemont").

R E C I T A L S  
-----

WHEREAS Warland and Edgemont as landlord and tenant, respectively, executed that certain lease (the "Lease") dated May 31, 1988, whereby Warland leased to Edgemont those certain Premises known as 6101 Gateway Drive, Cypress, California, and

WHEREAS Warland and Edgemont have agreed that the Basic Monthly Rent set forth in Section 5 of the Fundamental Lease Provisions of the Lease shall be increased due to the cost of the Tenant Improvements installed in the Premises by Landlord on behalf of Tenant,

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

1. BASIC MONTHLY RENT. The initial Basic Monthly Rent shall be \$19,505.00 per month.

THE PARTIES FURTHER AGREE AS FOLLOWS:

2. TERM COMMENCEMENT DATE. The Term Commencement Date set forth in Section 8 of the Fundamental Lease Provisions shall be December 12, 1988.

3. RENT COMMENCEMENT DATE. The Rent Commencement Date set forth in Section 8 of the Fundamental Lease Provisions shall be January 21, 1989.

4. EFFECTIVE DATE. This amendment shall be effective on and as of the date hereof.

5. SEVERABILITY. If any covenant or agreement of this Amendment or the application thereof to any person or circumstance shall be held to be invalid or unenforceable, then in each such event the remainder of this Amendment or the application of such covenant or agreement to any other person or any other circumstance shall not be thereby affected, and each covenant and agreement hereof shall remain valid and enforceable to the fullest extent permitted by law.

6. FURTHER ASSURANCES. Each of the parties hereto agrees that it will without further consideration execute and deliver such other documents and take such other action as may be reasonably requested by the other party to consummate more effectively the purposes or subject matter of this Amendment, so long as such actions do not adversely and materially affect the rights hereunder of the party to whom such action is required.

7. ATTORNEY'S FEES. In the event of any controversy, claim or dispute between the parties affecting or relating to the purposes or subject matter of this Amendment, the prevailing party shall be entitled to recover from the nonprevailing party all of its reasonably expenses, including attorney's and accountant's fees.

IN WITNESS WHEREOF, the parties hereto have entered into this Amendment as of the date first above written.

WARLAND INVESTMENTS, LTD.  
a California limited partnership

By /s/ Carl W. Robertson  
-----  
Carl W. Robertson  
Managing Director

"Landlord"

EDGEMONT SALES COMPANY, INC.,  
a California corporation

By /s/ Ronald Kotloff, President  
-----  
Ronald Kotloff, President

"Tenant"

SECOND AMENDMENT TO LEASE

THIS SECOND AMENDMENT TO LEASE (this "Second Amendment") is made and entered into as of this 18th day of October, 1991, by and between WARLAND INVESTMENTS, LTD., a California limited partnership, as Landlord, (hereinafter "Landlord"); and EDGEMONT SALES COMPANY, INC., a California corporation, as Tenant (hereinafter "Tenant").

R E C I T A L S  
- - - - -

WHEREAS Landlord and Tenant executed that certain lease (the "Lease") dated May 31, 1988, and amended by the Amendment to Lease dated January 15, 1989, whereby Landlord leased to Tenant those certain Premises known as 6101 Gateway Drive, Cypress, California, and

WHEREAS Section 6 of the Lease provides that Tenant shall obtain Rental Insurance as defined in Section 6.1.3,

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

(1) RENTAL INSURANCE

(a) Section 6 of the Lease shall be amended to provide that Landlord shall obtain the Rental Insurance as defined in Section 6.1.3.

(b) Tenant shall reimburse Landlord in full for the cost of the insurance obtained by Landlord pursuant to Section 6.1.3 within thirty (30) days of receipt of written demand therefore by Landlord.

(c) All other insurance provided for in Section 6 of the Lease shall continue to be obtained and kept in full force and effect by Tenant, at Tenant's sole cost and expense.

2. OTHER TERMS AND CONDITIONS. All other terms of the Lease dated May 32, 1988, as amended by the Amendment to Lease dated January 15, 1989, shall be in full force and effect.

3. EFFECTIVE DATE. This Second Amendment shall be effective on and as of the date hereof.

4. SEVERABILITY. If any covenant or agreement of this Second Amendment or the application thereof to any person or circumstance shall be held to be invalid or unenforceable, then and in each such event the remainder of this Amendment or the application of such covenant or agreement to any other person or any other circumstance shall not be thereby affected, and each covenant and agreement hereof shall remain valid and enforceable to the fullest extent permitted by law.

5. FURTHER ASSURANCES. Each of the parties hereto agrees that it will without further consideration execute and deliver such other documents and take such other action as may be reasonably requested by the other party to consummate more effectively the purposes or subject matter of this Second Amendment, so long as such actions do not adversely and materially affect the rights hereunder of the party to whom such action is required.

6. ATTORNEY'S FEES. In the event of any controversy, claim or dispute between the parties affecting or relating to the purposes or subject matter of this Second



Amendment, the prevailing party shall be entitled to recover from the nonprevailing party all of its reasonable expenses, including attorney's and accountant's fees.

IN WITNESS WHEREOF, the parties hereto have entered into this Second Amendment as of the date first above written.

WARLAND INVESTMENTS COMPANY  
a California general partnership

By /s/ Carl W. Robertson  
-----  
Carl W. Robertson  
Managing Director

"Landlord"

EDGEMONT SALES COMPANY,  
a California corporation

By /s/ Tim Duggan  
-----  
Tim Duggan  
President

"Tenant"

LEASE

WARLAND/CYPRESS BUSINESS CENTER  
-----

A Project of Warland Investments, Ltd.

WARLAND INVESTMENTS, LTD.

Landlord,

AND

EDGEMONT SALES COMPANY, INC.,  
a California corporation,

Tenant

## L E A S E

THIS LEASE (this "Lease") is made and entered by and between WARLAND INVESTMENTS, LTD., a California limited partnership ("Landlord"), and the tenant ("Tenant") described in Item 1 of the Fundamental Lease Provisions.

## LEASE OF PREMISES

Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, subject to all of the terms and conditions set forth herein, those certain premises (the "Premises") containing approximately the number of square feet of land area described in Item 2(b) of the Fundamental Lease Provisions outlined in red and cross-hatched on that certain plot plan ("Plot Plan") attached hereto as Exhibit "A" and legally described on Exhibit "B-1", on which Landlord has constructed, or will construct pursuant to the Construction Provisions attached hereto as Exhibit "C" (the "Construction Provisions"), improvements (the "Building") containing approximately the number of square feet of rentable area described in Item 2(c) of the Fundamental Lease Provisions.

The Premises are a part of certain real property owned by Landlord located in the City of Cypress, County of Orange, State of California more particularly described on Exhibit "B-2" attached hereto, on which Landlord has developed the Warland/Cypress Business Center (the "Business Center").

## FUNDAMENTAL LEASE PROVISIONS

1. TENANT: EDGEMONT SALES COMPANY, INC.  
a California corporation
2. Premises:
  - (a) Premises Address: 6101 Gateway Drive  
Cypress, California
  - (b) Premises Land Area: 86,681 square feet
  - (c) Premises Building Area: 30,768 square feet
  - (d) Premises Parking Spaces: 120 spaces
3. Initial Term: 120 months and one (1) partial month if the Lease Term commences on a day other than the first day of a calendar month  
  
(See Section 1)
4. Options to Extend Initial Term: One (1) Ten-Year Option  
  
(See Section 13)
5. Basic Monthly Rent: \$18,400 (may be adjusted: See Section 6 of Exhibit "C", the Construction Provisions)  
Partial Lease Month (if any) (prorated on a 30 day basis): \$613.13 per day.  
  
First Month's Rent (payable upon execution): \$18,400.00
6. Security Deposit: \$18,400.00 (one month's rent)  
  
(See Section 2.3)
7. Permitted Use: Administrative offices, warehouse and distribution
8. Commencement Date: November 1, 1988  
  
Rent Commencement Date: Thirty (30) days after Term Commencement Date

9. Broker(s) Fremont Properties  
 970 West 190th, Suite 660  
 Torrance, CA 90502

10. Address for Notice:

Landlord:

Warland Investments, Ltd.  
 1299 Ocean Avenue, Suite 300  
 Santa Monica, California 90401  
 Attn: Carl W. Robertson,  
 Managing Director

TENANT:

Edgemont Sales Company, Inc.  
 11082 Winners Circle  
 P.O. Box 918  
 Los Alamitos, CA 90720  
 Attention: Ron Kotloff, President

11. Contents of Lease: Pages 1-25

Standard Lease Provisions (Sections 1 through 13)

Exhibits "A"	Plot Plan
"B-1"	Legal Description of the Premises
"B-2"	Legal Description of the Business Center
"C"	Construction Provisions
"D"	Tenant's Certificate
"E"	Sign Criteria
"F"	Landscape Maintenance Specifications
"G"	Painting Specifications
"H"	Architect's Certificate
"I"	Estoppel Certificate

12. Date of this Lease: May 31, 1988

-----

References in the Fundamental Lease Provisions to Sections in this Lease are for convenience only and designate some of the Sections of the Standard Lease Provisions in which references to particular Fundamental Lease Provisions appear. Each reference in this Lease to any of the Fundamental Lease Provisions shall be construed to incorporate all the terms provided under each such Fundamental Lease Provision. In the event of any conflict between any Fundamental Lease Provision and the balance of the Lease, the latter shall control.

IN WITNESS WHEREOF, the parties hereto have executed this Lease, consisting of the foregoing provisions and Sections 1 through 13 of the Standard Lease Provisions which follow, together with the Exhibits described in Item 11 of the Fundamental Lease Provisions, all of which is incorporated herein by this reference.

WARLAND INVESTMENTS, LTD.,  
a California limited partnership

By /s/ Carl W. Robertson  
-----  
Carl W. Robertson  
Title: Managing Director

"LANDLORD"

EDGEMONT SALES COMPANY, INC.  
a California corporation

By /s/ Ron Kotloff  
-----  
Ron Kotloff  
Title: President

"TENANT"

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## STANDARD LEASE PROVISIONS

## 1. TERM

1.1 TERM. The initial term of this Lease ("Initial Term") shall be as specified in Item 3 of the Fundamental Lease Provisions, commencing as of the date (the "Commencement Date") described in Section 1.2 and, unless sooner terminated in accordance with the provisions hereof, ending on the last day of the Initial Term. Notwithstanding the foregoing, in the event the Commencement Date is a day other than the first day of a month, there shall be added to the Initial Term specified in Item 3 of the Fundamental Lease Provisions, the period (the "Partial Lease Month") from the Commencement Date to the first day of the next calendar month. As used herein, "Term" shall mean the Initial Term and all option periods ("Option Periods"), if any, described in Section 13.

1.2 COMMENCEMENT DATE. The Commencement Date shall be either (i) the date of substantial completion ("Substantial Completion") of Landlord's obligations for construction of the Premises in accordance with the Construction Provisions (Exhibit "C"), or (ii) November 1, 1988, whichever occurs last. Substantial Completion is defined as the date Landlord notifies Tenant that Landlord's obligations for construction of the Premises have been substantially completed in accordance with the Construction Provisions. Certification by Landlord's Architect (the "Project Architect") of Substantial Completion shall be conclusive and binding upon the parties hereto. Notwithstanding the foregoing, in the event that Substantial Completion is delayed by reason of any act or omission of Tenant, (a "Tenant Delay"), the date specified in clause (i) above shall be the date Substantial Completion would have occurred had the Tenant Delay(s) not occurred. In no event shall Tenant be required to take possession of the Premises prior to November 1, 1988.

Landlord may provide for Substantial Completion of the Premises on or after the Target Commencement Date. Landlord shall deliver possession of the Premises to Tenant on or before the date of Substantial Completion of the Premises. Landlord shall exercise reasonable efforts to notify Tenant 30 days in advance of the estimated Commencement Date. However, in the event delivery of the Premises is delayed beyond the Target Commencement Date for any reason, Landlord shall not be liable or responsible to Tenant for any loss or damage suffered by Tenant resulting from such delay.

1.3 TENANT'S CERTIFICATE AND CERTIFICATE OF OCCUPANCY. Tenant shall execute and deliver to Landlord within 10 days after the Commencement Date a certificate substantially in the form of Exhibit "D" (the "Tenant's Certificate"). The failure of Tenant to execute and deliver the Tenant's Certificate shall constitute an acknowledgment by Tenant that the statements included in Exhibit "D" are true and correct, without exception. Within 60 days following the Commencement Date, Landlord shall procure and deliver to Tenant a copy of the certificate of occupancy for the Premises issued by the appropriate governmental agency.

1.4 LEASE YEAR. A Lease Year shall consist of a period of 12 consecutive full calendar months. The first Lease Year shall begin on the Commencement Date or, if the Commencement Date does not occur on the first day of a calendar month, on the first day of the calendar month next following the Commencement Date. Each succeeding Lease Year shall commence upon the anniversary date of the first Lease Year.

## 2. RENT AND SECURITY DEPOSIT.

2.1 RENT. Tenant shall pay to Landlord as rent ("Rent") for the Partial Lease Month, if any, and for each month of each Lease Year during the Term, when due and without offset or deduction, the Basic Monthly Rent described in Item 5 of the Fundamental Lease Provisions.



Each installment of Basic Monthly Rent shall be paid in lawful tender in advance to Landlord at the address specified in Item 10 of the Fundamental Lease Provisions or such other address as Landlord shall designate in writing to Tenant on or before the first day of the calendar month for which Rent is due. If the Commencement Date is on a day other than the first day of a calendar month, then the Rent for the Partial Lease Month shall be prorated on the basis of a 30-day month and shall be payable in advance on or before the Commencement Date.

2.2 ADDITIONAL RENT. Tenant shall also pay as additional rent ("Additional Rent") all other payments, if any, to be made by Tenant pursuant to the provisions of this Lease, payable when due. Additional Rent and Basic Monthly Rent are sometimes collectively referred to herein as "Rent."

2.3 SECURITY DEPOSIT. Tenant agrees to deposit with Landlord simultaneously with the execution of this Lease by Landlord a security deposit (the "Security Deposit") securing Tenant's faithful performance of all the terms, covenants and conditions hereunder in the amount set forth in Item 6 of the Fundamental Lease Provisions. In the event of any default ("Default") described in Section 11.1, Landlord may from time to time, without any obligation to do so, use, apply or retain all or any part of the Security Deposit for the payment of any Rent or any other sum in Default, or for the payment of any amount which Landlord may spend or become obligated to spend by reason of Tenant's Default, or to compensate Landlord for any loss or damage which Landlord may suffer by reason of Tenant's Default. If any portion of the Security Deposit is so used or applied Tenant shall, within five days after written demand therefor, deposit cash with Landlord in an amount sufficient to restore the Security Deposit to its original amount; Tenant's failure to do so shall be a Default under this Lease. Landlord shall not be required to keep the Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on such deposit. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the Security Deposit or any remaining balance thereof, shall be returned to Tenant (or, at Landlord's option, to the last assignee of Tenant's interest hereunder) within 10 days following expiration of the Term. In the event of termination of Landlord's interest in this Lease, Landlord shall transfer the Security Deposit to Landlord's successor in interest.

#### TAXES AND UTILITIES.

##### 3.1 REAL PROPERTY TAXES.

3.1.1 REAL PROPERTY TAXES DEFINED. "Real Property Taxes" means (i) any and all forms of tax, assessment, license fee, excise, bond, levy, charge or imposition (collectively referred to herein as "Taxes", general, special, ordinary or extraordinary, imposed, levied or assessed against the Building, the Premises, the Business Center or any interest of Landlord or any mortgagee thereof in the same, by any authority or entity having the direct or indirect power to tax, including without limitation, any city, county, state or federal government, or any fire, school, redevelopment, agricultural, sanitary, street, lighting, security, drainage or other authority, political subdivision or improvement district thereof, (ii) any Tax in substitution, partially or totally, of any Tax now or previously included within the definition of Real Property Taxes, including without limitation, those imposed, levied or assessed to increase tax increments to governmental agencies, or for services such as (but not limited to ) fire protection, police protection, street, sidewalk and road maintenance, refuse removal or other governmental services previously provided without charge (or for a lesser charge) to property owners and/or occupants, (iii) any Taxes allocable to or measured by the area of the Building, the Premises, the Business Center or any Rent payable hereunder, including without limitation, any gross income tax or excise tax on the receipt of such Rent or upon the possession, leasing, operation, maintenance, repair, use or occupancy by Tenant or Landlord of the Premises, and (iv) any Taxes on the transfer or transaction directly or indirectly represented by this Lease, by any subleases or assignments

hereunder or by other leases in the Business Center or by any document to which Tenant is a party, creating or transferring (or reflecting the creation or transfer) of an interest or estate in the Premises. Notwithstanding the foregoing, during the Initial Term of this Lease, Tenant shall not be obligated to pay increases in Real Estate Taxes due to the sale of the Building, the Premises or the Business Center. Real Property Taxes shall not include any general franchise, income, estate or inheritance tax imposed on Landlord.

3.1.2 PAYMENT. Tenant shall pay all Real Property Taxes applicable to the Premises during the Term not less than 10 days prior the delinquency date therefor and within five days thereafter shall provide Landlord with written evidence satisfactory to Landlord of payment of the same. In the event that any such Real Property Taxes are applicable to periods other than during the Term, the parties shall equitably prorate the amount payable by Tenant and shall provide for reimbursement to Landlord or Tenant, as required. Landlord shall be responsible for and shall pay the Real Property Taxes up to the Commencement Date. At Landlord's option, Landlord shall pay on behalf of Tenant the Real Property Taxes. Landlord shall invoice Tenant for said Real Property Taxes and Tenant shall remit same within five days for receipt of said invoice. Landlord shall forward Real Property Taxes statements to Tenant within a reasonable time period following receipt of same from the County Tax Collector.

3.1.3 SEPARATE ASSESSMENT. Landlord shall use its best efforts to cause the Premises to be separately assessed from other real property owned by Landlord. In the event Landlord is unable to obtain a separate assessment of the Premises, the county assessor's work sheets or other records, if available, shall be used by Landlord in reasonably determining that portion of the Real Property Taxes levied or assessed against the tax assessment parcel, of which the Premises are a part, properly allocable to the Premises. In the event such work sheets or other records are not available, Landlord shall reasonably and equitably allocate the Real Property Taxes levied or assessed against the tax assessment parcel of which the Premises are a part between the Premises and the remainder of such tax assessment parcel.

3.2 PERSONAL PROPERTY TAXES. Tenant shall pay, or cause to be paid, not less than 10 days prior to delinquency any and all taxes, assessments, license fees and other charges levied or assessed during the Term upon all of Tenant's Alterations, leasehold improvements, equipment, furniture, fixtures, and any other personal property located in, on or about the Premises. In the event of any or all of Tenant's Alterations, leasehold improvements, equipment, furniture, fixtures and other personal property shall be assessed and taxed with the real property, Tenant shall pay to Landlord such taxes within 10 days after delivery to Tenant by Landlord of a statement in writing setting forth the amount of such taxes applicable to Tenant's property.

3.3 UTILITY CHARGES. Tenant shall be solely responsible for, and shall pay promptly the cost of, (including connection and other charges) all heat, water, gas, light, electrical, sewer, telephone and other services and utilities supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to the Premises, Tenant shall pay Tenant's share, as reasonably determined by Landlord, of all charges jointly metered with other real property owned by Landlord.

#### 4. OPERATION.

4.1 USE. Tenant shall use the Premises solely for the purpose set forth under Item 7 of the Fundamental Lease Provisions and shall not use or permit the Premises or any part thereof to be used for any other purpose or purposes whatsoever. Tenant shall keep the Premises and every part thereof, in a clean and wholesome condition, free from any objectionable noises, odors, or nuisances, and shall comply with all health and police regulations applicable thereto in all respects. Tenant

agrees that all trash and rubbish of Tenant shall be deposited only in receptacles as provided by Landlord and that there shall be no other trash receptacles permitted to remain outside the Premises.

4.2 GENERAL. Tenant, for itself, its sub-tenants, concessionaires and its and their employees, agents, customers, invitees and licensees, agrees (a) not to cause, permit or suffer any nuisance or waste to or of the Premises or any disturbance of the quiet enjoyment of any other tenant in the Business Park, including, without limitation, (i) the use or permission of use of any medium, such as loudspeakers, sound amplifiers, exterior lighting or other devices, capable of being heard or seen outside the Premises, such as flashing lights, searchlights, loudspeakers, phonographs or radio broadcasts, or (ii) the affixing, posting or distribution in, on or about the Premises or the Business Center of any signs, handbills, circulars, advertisements or papers or other materials or matters, except upon the prior written consent of Landlord, (b) to comply with (i) any and all federal, state, county or municipal statutes, laws, ordinances, rules, regulations and orders at any time, now or in the future affecting the Premises, including, without limitation, any of the same requiring improvements to or alteration of the Premises, (ii) any and all covenants, conditions, restrictions or easements affecting the Premises or the Property and (iii) each and all of the provisions of this Lease, any policies of insurance at any time now or in the future in effect pursuant to this Lease and any deeds of trust at any time now or in the future affecting the Premises and (c) not to take or do, permit or suffer any action or thing which would in any way (i) increase or cause to be increased the rates of any policy of insurance at any time now or in the future in any way affecting the Premises, or (ii) subject Landlord, its other tenants or subtenants, or their employees, agents, customers, invitees or licensees, to any liability for injury to any person or any property as a result thereof.

4.3 SIGNS. Tenant shall be permitted to construct and maintain on or about the Premises such monument, free-standing or attached signs ("Signs") identifying Tenant, the number, type design, color, location, site configurations and materials which shall be (a) consistent with the Sign Criteria of the Warland/Cypress Business Center ("Sign Criteria") attached hereto as Exhibit "E", (b) consistent with applicable governmental statutes, laws, ordinances, rules, regulations and orders and shall have been approved by all governmental entities having jurisdiction with respect thereto, (c) approved by Landlord in advance in writing and (d) subject to the provisions of Section 5.3.

4.4 PARKING. Tenant shall limit its parking to the parking lot on the Premises. Tenant shall not permit any parking by its employees, agents, subtenants, customers, invitees, concessionaires or visitors on the streets surrounding the premises.

4.5 HAZARDOUS MATERIALS. Landlord and Tenant agree as follows with respect to the existence or use of "Hazardous Material" (as defined below) on the Premises:

4.5.1 Tenant shall (i) not cause or permit any Hazardous Material to be brought upon, kept or used in or about the Premises by Tenant, its agents, employees, contractors or invitees, without the prior written consent of Landlord which Landlord shall not unreasonably withhold as long as Tenant demonstrates to Landlord's reasonable satisfaction that such Hazardous Material is necessary for Tenant's business and will be used, kept and stored in a manner that complies with all Laws pertaining to any such Hazardous Material. If Tenant breaches the obligations stated in the preceding sentence, or if the presence of Hazardous Material on the Premises caused or permitted by Tenant results in contamination of the Premises, or if contamination of the Premises by Hazardous Material otherwise occurs for which Tenant is legally liable to Landlord for damage resulting therefrom, then Tenant shall indemnify, defend and hold Landlord harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, diminution in value of the Premises, damages for the loss or restriction on use of

rentable or usable space or of any amenity of the Premises, damages arising from any adverse impact on marketing of space in the building in which the Premises is located, and sums paid in settlement of claims, attorneys's fees, consultant fees and expert fees) which arise during or after the Lease Term as a result of such contamination. This indemnification of Landlord by Tenant includes, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local government agency or political subdivision because of Hazardous Material present in the soil or ground water on or under the Property. Without limiting the foregoing, if the presence of any Hazards Material on the Premises caused or permitted by Tenant results in any contamination of the Premises, Tenant shall promptly take all actions at its sole expense as are necessary to return the Premises to the condition existing prior to the introduction of any such Hazardous Material to the Premises; provided that (i) Landlord's approval of such actions shall first be obtained, which approval shall not be unreasonably withheld so long as such actions would not potentially have any material adverse long-term or short-term effect on the Premises and (ii) such actions are calculated to cause the least amount of inconvenience to other Tenants.

4.5.2 Notwithstanding anything in this Lease to the contrary, it shall not be unreasonable for Landlord to withhold its consent to any proposed assignment, sublease of transfer if (i) the proposed transferee's anticipated use of the Premises involves the generation, storage, use, treatment or disposal of Hazardous Material; (ii) the proposed transferee has been required by any prior landlord, lender or governmental authority to take remedial action in connection with Hazardous Material contaminating a property if the contamination resulted from such transferee's actions or use of the property in question; or (iii) the proposed transferee is subject to any enforcement order issued by any governmental authority in connection with the use, disposal or storage of a Hazardous Material.

4.5.3 As used herein, the term "Hazardous Material" means any hazardous or toxic substance, material or waste which is or becomes regulated by any local governmental authority, the State of California or the United States Government. The term "Hazardous Material" includes, without limitation, any material or substance which is (i) defined as a "hazardous waste," "extremely hazardous waste" or "restricted hazardous waste" under Sections 25115, 25117 or 25122.7, or listed pursuant to Section 25140, of the California Health and Safety Code, Division 20, Chapter 6.5 (hazardous Waste Control Law), (ii) defined as a "hazardous substance" under Section 25316 of the California Health and Safety Code, Division 20, Chapter 6.8 (Carpenter-Presley-Tanner Hazardous Substance Account Act), (iii) defined as a "hazardous material," "hazardous substance," or "hazardous waste" under Section 25501 of the California Health and Safety Code, Division 20, Chapter 6.95 (Hazardous Materials Release Response Plans and Inventory), (iv) defined as a "hazardous substance" under Section 25281 of the California Health and Safety Code, Division 20, Chapter 6.7 (Underground Storage of Hazardous Substances), (v) petroleum, (vi) asbestos, (vii) listed under Article 9 or defined as hazardous or extremely hazardous pursuant to Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 20 (viii) designated as a "hazardous substance" pursuant to Section 311 of the Federal Water Pollution Control Act (33 U.S.C. Section 1317), (ix) defined as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq. (42 U.S.C. Section 6903), or (x) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq. (42 U.S.C. Section 9601).

## 5. MAINTENANCE, REPAIRS, AND ALTERATIONS

5.1 TENANT MAINTENANCE, REPAIR AND RESTORATION OBLIGATIONS. Subject to the provisions of Sections 5.2, 7.1 and 8.3., Tenant shall,

during the Term, at Tenant's sole cost and expense, keep the Premises and every part thereof in good, clean, safe, attractive and lawful order, condition and repair. The portions of the Premises subject to such maintenance and repair obligations shall include, but shall not be limited to, the roof, walls and foundation of the Building, all parts of all electrical, water, gas, telephone, security, sewage and other utility systems located on the Premises or serving the Premises, all portions of the heating, ventilation and air conditioning systems ("HVAC") serving the Premises and all sidewalks, driveways, landscaping, signs, truck travel lanes, parking lots, and fences located or to be located on the Premises.

In the performance of its landscape maintenance obligations, Tenant shall follow the Landscape Maintenance Specifications of the Warland/Cypress Business Center attached hereto as Exhibit "F". Furthermore, Tenant shall contract with R&D Landscaping & Irrigation for the on-going maintenance of the landscaping, or with such other landscaping maintenance firm as shall be approved by Landlord. Tenant shall obtain a service contract for repairs and maintenance of the HVAC system, which maintenance contract shall conform to the requirements of the warranty, if any, provided in connection with the initial HVAC system, with a copy of the service contract to be furnished to Landlord within 30 days of execution of this Lease. In addition, Tenant shall be responsible for the repainting of the exterior of the Premises during the fifth to sixth year of the Lease Term, if reasonably required, at Tenant's sole cost, and pursuant to the original Painting Specifications (including, but not limited to, the color specifications), attached hereto as Exhibit "G". Tenant shall be responsible for the resurfacing of the parking lot of the Premises during the fifth to sixth year of the Lease Term, if reasonably required, at Tenant's sole cost.

Tenant expressly waives the benefits of any statute at any time now or in the future in effect which would otherwise afford Tenant the right to make repairs at Landlord's expense or to terminate this Lease because of Landlord's failure to keep the Premises in good order, condition or repair, including, without limitation, California Civil Code Sections 1940, 1941 and 1942.

5.2 LANDLORD MAINTENANCE AND REPAIR. Except as specifically provided in this Section 5.2 and Section 7 and 8, Landlord shall have no obligation to maintain or repair the Premises. Except as provided in Sections 7 and 8, there shall be no abatement of Rent and in no case shall there be any liability of Landlord to Tenant or any other individual or entity by reason of (a) any injury to unless such injury is directly caused by Landlord's gross negligence or wilful act) or interference with Tenant's business arising from the making of any repairs, alterations or improvements in or to any portion of the Business Center, the Building or to the Premises or in or to fixtures, appurtenances and equipment therein or (b) any entry onto the Premises by Landlord for purposes of making such repairs, alterations or improvements or any other purpose.

5.3 ALTERATIONS AND ADDITIONS. Tenant shall not, without Landlord's prior written consent, which consent shall not be unreasonably withheld, make any alterations, additions, improvements or utility installations ("Alterations") in, on or about the Premises. Landlord hereby consents to all nonstructural Alterations to the interior of the Premises, the cost of which does not exceed \$100,000.00 in the aggregate in any one Lease Year. As a condition to its consent, Landlord may require (a) Alterations to be made under the supervision of a competent architect or structural engineer in accordance with plans and specifications approved in advance by Landlord, and (b) Tenant to provide Landlord, at Tenant's sole cost and expense, with a lien and completion bond in an amount equal to one and one-quarter times the estimated cost of such alterations to insure Landlord against any liability for liens and to insure completion of such Alterations. In determining whether to grant or deny such consent, Landlord may also consider the aesthetics of any proposed Alterations and whether such Alterations would enhance the physical appearance and value of the Premises. Upon completion of any Alterations, Tenant agrees to (i) cause a Notice of Completion to be

recorded in the Office of the County Recorder in the County of Orange in accordance with Section 3093 of the California Civil Code, and (ii) cause Tenant's Architect to complete and sign the Architect's Certificate in the form attached hereto as Exhibit "H". All such Alterations shall be done in a good, workmanlike manner, shall be diligently prosecuted to completion and shall be performed and done strictly in accordance with all applicable governmental statutes, laws, rules, regulations, ordinances and orders, including, without limitation the State of California Title 24 Energy Regulations. In any event, Tenant shall give Landlord not less than 30 days' written notice prior to the commencement of any Alterations and Landlord shall have the right to post notices of nonresponsibility on or about the Premises.

5.4 MECHANICS' LIENS. Tenant agrees (a) that it will promptly pay for all costs of Alterations or other work done or permitted by it or caused to be done by it on or about the Premises, (b) that it will keep the Premises free and clear of any liens arising out of any such Alterations or otherwise, (c) that should any such lien be made or filed against the Premises on account of such Alterations, or other work done, permitted, or caused to be done, by Tenant, Tenant shall, at its sole cost and expense, bond against or discharge such lien within 10 days after receipt of written request to do so from Landlord.

5.5 FAILURE. In the event that Tenant fails, refuses or neglects to commence and complete repairs promptly and adequately, to remove any liens, pay any costs, expense, to reimburse Landlord or to otherwise perform any act or fulfill any obligation required of Tenant pursuant to this Section 7.5, Landlord may, at its option, make or complete any such repairs, remove such lien, pay such costs, or perform such acts, or the like, without prior notice to do so but at the sole cost and expense of Tenant; Tenant agrees to reimburse Landlord for all costs and expenses of Landlord thereby incurred within ten (10) days after receipt by Tenant from Landlord of a statement setting forth an amount of such costs and expenses. The failure by Tenant to so make repairs, to remove any lien, to pay any such costs or expense or to so reimburse Landlord (in the case of reimbursement within such ten (10) day period), shall constitute a default by Tenant under this Lease and shall carry with it the same consequences as the failure to pay any installment of rent. Landlord's rights and remedies, pursuant to this Section 7.5, shall be in addition to any and all other rights and remedies provided under this lease or by law.

5.6 TITLE. All right, title and interest in and to the Premises and any Alterations thereto including, without limitation, all improvements constructed pursuant to the Construction Provisions, shall be held by and retained by Landlord and shall be free and clear of any claim or interest of Tenant upon expiration or sooner termination of this Lease. Subject to the provisions of Section 5.6, Tenant shall not waste, destroy or remove any improvements, fixtures, or other property affixed to the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld.

5.7 SURRENDER. Upon expiration or any sooner termination of this Lease, Tenant shall, at its sole cost and expense, excepting reasonable wear and tear not resulting from the failure of Tenant to perform its obligations under this Section 5, promptly (i) at Landlord's written election, undo and remove all trade fixtures, personal property, installations, Alterations, signs and leasehold improvements made by, on behalf of, or otherwise within the possession of, Tenant, its subtenants, or their employees or agents, on or about the Premises requested to be removed and undone by Landlord, (ii) restore, at Landlord's written election, the floor, ceiling and walls of the Premises to their condition immediately preceding the Commencement Date, and (iii) surrender up and deliver possession of the Premises to Landlord, broom clean and in the same condition, order and repair existing immediately preceding the Commencement Date.

## 6. INSURANCE AND LIABILITY.

6.1 INSURANCE. Tenant shall, at Tenant's expense, obtain and keep in full force during all portions of the Term and effective upon tender of possession of the Premises:

6.1.1 LIABILITY INSURANCE. A policy of comprehensive public liability insurance insuring against any liability arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto and contractual indemnity insurance insuring Tenant's obligations under Section 6.5.1 (collectively, "Liability Insurance"). Such Liability Insurance shall have limits of not less than \$6,000,000 for combined single limit for injury, death or any one or more persons and property damage. The limits of the Liability Insurance shall never be decreased, but shall be increased in accordance with increases, if any, reasonably determined by Landlord to be necessary to maintain policy limits from time to time in amounts customary and usual for premises comparable to the Premises; such increases, if any, are to be made on a yearly basis on or about the anniversary of the Commencement Date;

6.1.2 ALL RISK INSURANCE. A policy of All Risk Insurance ("All Risk Insurance") insuring the Premises, all improvements contained thereon, Alterations thereto and all other property located on the Premises against loss by all perils covered under All Risk Insurance including, without limitation, fire, malicious mischief, extended coverage, vandalism, and special extended perils in an amount equal to their full new replacement cost. The All Risk Insurance shall not cover Tenant's personal property, removable trade fixtures and Alterations not constituting replacements of components of the original Building demised hereunder.

6.1.3 RENTAL INSURANCE. A policy of rental insurance ("Rental Insurance") against loss or damage by fire and other perils covered by All Risk Insurance in an amount, during the Partial Lease Month, if any, and the first Lease Year, not less than the Basic Annual Rent payable hereunder for the Partial Lease Month, if any, and the first Lease Year, and during each Lease Year thereafter in an amount not less than the greater of the Basis Monthly Rent payable hereunder for such Lease Year or the sum of all Rent which was payable hereunder for the then immediately preceding Lease Year;

6.1.4 PLATE GLASS INSURANCE. A policy of full coverage plate glass insurance on the Premises (provided, however, Tenant may self-insure for this coverage); and

6.1.5 WORKERS' COMPENSATION INSURANCE. A policy of workers' compensation insurance insuring all of Tenant's employees working on or about the Premises with coverage limits not less than those required by applicable law.

6.2 INSURER AND POLICY FORM. All insurance policies required to be obtained by Tenant pursuant to the provisions of this Section 6, (i) shall be carried only through responsible insurance companies rated A:XII or better in the most current "Best's Key Rating Guide", (ii) shall be primary and noncontributing with, and not in excess of, any insurance coverage which may be carried by Landlord, (iii) shall name Landlord and any other parties designated by Landlord as an insured, and (iv) shall contain language or bear endorsements that such policy or policies shall not lapse, be cancellable or be subject to reduction of coverage without giving Landlord 30 days' prior written notice thereof. Within 30 days after the initial purchase of said insurance policies, but not more than 25 days after the Commencement Date and within 30 days after every material change therein, Tenant shall provide Landlord a copy of each such policy of insurance or a certificate of insurance certifying to the existence of such insurance in a form consistent with the requirements of this Section 6.

6.3 WAIVER OF SUBROGATION. Each policy of insurance obtained by either party pursuant to this Lease insuring against the perils required to be covered in the All Risk Insurance, whether or not such policy is required to be obtained hereunder, shall expressly waive all rights of subrogation against the other and their respective officers, directors, general partners, employees, agents and representatives.

6.4 INDEMNIFICATION. From and after the date of execution hereof by Landlord, Tenant shall indemnify, defend and hold Landlord harmless against and from all claims, demands, actions, causes of actions, damages, liabilities, obligations, costs and expenses, including, without limitation, attorneys' fees arising from (i) the construction, repair, alteration, improvement, use, occupancy or enjoyment of the Premises by Tenant or any person thereon, including, without limitation, any labor dispute involving Tenant, (ii) any breach or default in the performance of any obligation on Tenant's part to be performed under the terms of this Lease or (iii) any negligent or wrongful act or omission of Tenant, or any officer, agent, employee, guest or invitee of Tenant in or about the Premises. Notwithstanding the foregoing, the indemnifications provided under this Section 6.5.1 shall not apply to any claims resulting from the gross negligence or wilful misconduct of Landlord.

## 7. CASUALTY.

7.1 RECONSTRUCTION. Subject to the provisions of Sections 7.1.2 and 7.2, in the event the Premises are damaged by fire or any other peril (other than, at the option of Landlord, the negligence or wilful misconduct of Tenant, its employees or contractors), Landlord shall repair, reconstruct and restore (collectively, "Restore" or "Restoration") with reasonable promptness the Premises (other than any property of Tenant which is not insured pursuant to Section 6.1, Restoration of which shall be conducted by Tenant) to a condition reasonably equivalent to its condition immediately prior to such damage. In such case, this Lease shall remain in full force and effect, except that in all cases of damage (other than that resulting from the negligence or wilful misconduct of Tenant, its employees or contractors) Tenant shall be entitled to a proportionate reduction of the Basic Annual Rent from the date of damage until substantial completion, as certified by Landlord's architect, of Restoration of such damage, based upon the extent to which the damage and making of such repairs shall reasonably interfere with the occupancy by Tenant of the Premises; provided, however, that such reduction of Basic Monthly Rent shall be only to the extent of the proceeds of the rent insurance to be obtained under Section 6.1.3.

7.1.2 INSURANCE DEFICIENCY. In the event of any damage to the Premises by fire or any other peril required to be insured by Tenant pursuant to Section 6.1, (i) Tenant shall bear the risk that the insurance coverage to be provided by Tenant under Sections 6.1.2 and 6.1.3 will be sufficient to cover the full replacement cost of the Restoration of the Premises by Landlord under Section 7.1 and any abatement of Basic Monthly Rent under Section 7.1 and (ii) Tenant shall be solely responsible for the payment of the cost of any deficiency thereof. Following adjustment of the loss and the obtaining of a guaranteed maximum cost construction contract covering the Restoration, if Landlord determines there may be a deficiency in insurance proceeds, Landlord shall deliver written notice thereof to Tenant, together with an estimate of the deficiency. Promptly following receipt of such notice, Tenant shall promptly deposit in cash the amount of such deficiency with Landlord. Following completion of the Restoration, if the deposit was insufficient Tenant shall pay the cost of the remaining deficiency; if the deposit was excessive, Landlord shall return the excess to Tenant. Landlord shall not be required to commence the Restoration until it has received such deposit.

## 7.2 TERMINATION.

7.2.1 UNINSURED CASUALTY. In the event the Premises are damaged as a result of any peril other than the perils covered by



insurance or self-insured by Tenant pursuant to Section 6.1 (an "Uninsured Casualty"), then Landlord shall forthwith Restore the same, provided the cost of such Restoration does not exceed \$200,000.00. In the event of an Uninsured Casualty where the cost of Restoration of the Premises, as reasonably determined by Landlord, exceeds such amount, then Landlord shall have the option to (a) Restore such damage, with this Lease continuing in full force and effect, but with the Basic Annual Rent to be proportionately reduced as provided in Section 7.1, or (b) terminate this Lease. Landlord's option to terminate this Lease shall be exercisable by delivery of 30 days' prior written notice to Tenant, given at any time within 60 days of such damage or destruction.

7.2.2 OTHER TERMINATION. In the event that any damage occurs during the last 12 months of the Term and the cost of Restoration of such damage exceeds \$300,000.00, Landlord and Tenant (except as to Tenant in the case where such damage results from the negligence or wilful misconduct of Tenant, its employees or contractors) shall each have the option, exercisable at any time within 60 days of such damage, to terminate this Lease on 30 days' prior written notice to the other party.

7.2.3 PAYMENT OF RENT. In the case of any termination of this Lease pursuant to this Section 7.2, all Rent, reduced for the period from the date of damage through the date of termination of this Lease in an amount proportionate to the extent, if any, to which such damage interfered with Tenant's occupancy of the Premises, shall be paid by Tenant through the date of such termination.

7.3 WAIVER OF CIVIL CODE SECTIONS. Tenant hereby waives the benefit of the provisions of Sections 1932(2) and 1933(4) of the California Civil Code with respect to any partial or total destruction of the Premises.

## 8. CONDEMNATION.

### 8.1 DEFINITIONS.

8.1.1 CONDEMNATION. Condemnation ("Condemnation") shall be defined as (i) the taking of all or any portion of the Premises through the exercise of any governmental power of condemnation or eminent domain, whether by legal proceedings or otherwise, by any public or quasi-public authority, private corporation, entity or individual having the power of condemnation or eminent domain ("Condemnor") or (ii) any voluntary sale or transfer by Landlord, either under the threat of Condemnation or while Condemnation proceedings are pending.

8.1.2 TOTAL CONDEMNATION. Total condemnation ("Total Condemnation") shall be defined as the Condemnation of the entire Premises.

8.1.3 PARTIAL CONDEMNATION. Partial condemnation ("Partial Condemnation") shall be defined as any Condemnation that does not constitute a Total Condemnation.

8.1.4 CONDEMNATION DATE. Condemnation date ("Condemnation Date") shall be defined as the earlier of (i) the date of constructive or actual possession of that portion of the Premises subject to Condemnation is taken by the Condemnor or (ii) the date when title to that portion of the Premises subject to Condemnation vests in the Condemnor or its nominee.

8.1.5 AWARD. Award ("Award") shall be defined as all compensation awarded, paid or received in connection with a Condemnation.

8.2 TOTAL CONDEMNATION. In the event of a Total Condemnation, this Lease shall terminate as of the Condemnation Date.

### 8.3 PARTIAL CONDEMNATION.

8.3.1 TERMINATION. In the event of any Partial Condemnation of the Premises which substantially impairs the use of the remainder of the Premises by Tenant, Tenant and Landlord shall each have the option to terminate this Lease, exercisable upon 60 days' prior written notice delivered to the other party at any time within 30 days after the Condemnation Date.

8.3.2 ABATEMENT OF RENT. In the event of any Partial Condemnation, Rent payable as of the Condemnation Date, but during and only during the period of such Partial Condemnation, shall be abated by an amount equal to the then Rent multiplied by a fraction, the numerator of which is equal to the total square footage of rentable area of that portion of the Premises which is subject to Condemnation and the denominator of which is equal to the total ground floor square footage of the Premises.

8.3.3 RESTORATION. In the event of any Partial Condemnation where this Lease is not terminated pursuant to Section 8.3.1, Landlord shall with reasonable promptness, Restore the Premises to a single self-contained unit in a condition as near as reasonably possible to the condition of the Premises immediately preceding Condemnation; provided, however, Landlord's obligation to Restore the Premises shall be limited to that portion of the Award received by Landlord attributable to severance damages.

8.4 ALLOCATION OF AWARD. Subject to the provisions of this Section 8.4, the entire Award made as a result of any Condemnation shall belong solely to, and shall be the sole property of, Landlord, whether such Award shall be as compensation for diminution in value of this Lease, for the value of any unexpired portion of the Term, or as compensation for the fee or for the Premises, and Tenant shall have no claim against either Landlord or the Condemnor with respect thereto. Notwithstanding the foregoing, Tenant shall be entitled to pursue an Award for moving or relocation expenses and for the unamortized value of any trade fixtures or Alterations of Tenant subject to Condemnation. Tenant does hereby covenant and agree, upon the request of Landlord, to execute an assignment of any Award in substance consistent with the provisions of this Section 8.4.

8.5 WAIVER OF CODE OF CIVIL PROCEDURE SECTION. Each Party hereby waives the provisions of Section 1265.130 of the California Code of Civil Procedure and the provisions of any successor or other law of the like import.

### 9. ASSIGNMENT AND SUBLETTING.

9.1 ASSIGNMENT AND SUBLETTING. Subject to the provisions of Section 9.8 herein, Tenant may not assign, transfer, hypothecate, encumber, by operation of law or otherwise, this Lease, or any of its interest herein or hereto, nor sublet the Premises, or any portion thereof, nor grant any license or right of use or occupancy with respect to the Premises, without the prior written consent of Landlord which consent (i) in the case of a proposed assignment of the Lease shall not be unreasonably withheld subject to Section 10.5 and (ii) in all other cases, including subleases of all or any portion of the Premises, may be withheld in the sole and absolute discretion of Landlord. Any attempt to do otherwise shall be absolutely and unconditionally null and void and of no force or effect whatsoever.

9.2 NOTICE. If Tenant desires to undertake any such transaction, it shall provide Landlord with written notice of such desire specifying the consideration for, and all other terms and conditions of, and identifying the proposed assignee or subtenant (the "Proposed Party") and including with the notice the current financial statement of the Proposed Party.

9.3 TERMINATION, SUBLEASE, OR ASSIGN. At any time within 30 days after Landlord's receipt of the information specified in Section 9.2, Landlord may by written notice to Tenant elect (i) to sublease from Tenant the Premises or the portion thereof so proposed to be subleased by Tenant, or to take an assignment of Tenant's leasehold estate hereunder, or such part thereof as shall be specified in said notice, upon the same terms as those offered to the proposed subtenant or assignee, as the case may be, except that the Rent payable by Landlord in the case of a sublease to Landlord shall be the same rent per square foot as is payable by Tenant hereunder for the same period; or (ii) to terminate this Lease as to the portion of the Premises so proposed to be subleased or assigned (which may include all of the Premises), with a proportionate abatement in the Rent payable hereunder. In the case where Landlord elects to sublease space or receive an assignment from Tenant or terminate all or any portion of this Lease pursuant to this Section 9.3, Landlord may thereafter lease the space affected to Tenant's proposed assignee or subtenant, without liability to Tenant, provided, however, in such event Tenant shall be relieved of all obligations under this Lease to Landlord, with respect to exercise its option to sublet or receive an assignment from Tenant (or terminate this Lease as to any portion of the Premises), (i) Landlord and its subtenants shall have the right to use in common with Tenant all parking spaces, lavatories, corridors and lobbies within the Premises the use of which is reasonably required for the use of such sublet, assigned or terminated space.

9.4 CONSENT. Subject to the provisions of Section 9.5, Tenant may neither consummate, nor agree to consummate, any proposed transaction subject to the provisions of this Section 9 without the prior written consent of Landlord. Landlord shall not unreasonably withhold its consent to any assignment of the Lease or to any sublease of space in excess of 5,000 square feet of building area; with respect to all other transactions subject to this Section 9, Landlord may withhold its consent in its sole discretion. In addition, in each such case Tenant shall pay to Landlord all expenses, including reasonable attorneys' fees and reasonable accountants' fees, incurred by Landlord in determining whether or not to consent to any such transaction, (b) Tenant and its assignees and sublessees shall, within 10 days after Landlord provides Tenant with written notice to do so, execute and deliver to Landlord such documents, and take such further action, as Landlord may deem necessary or advisable to effect or maintain such transaction or to protect Landlord's rights under this Lease, (c) the acceptance by Landlord of rent from any person other than Tenant shall not be deemed a consent to any particular assignment, subletting or other such transfer shall not be deemed a consent to any other assignment, subletting or other such transfer and (e) the consent to any assignment, subletting or other such transfer shall not in any way whatsoever relieve Tenant of any of its obligations under this Lease, whether arising before or after such consent. In no event shall there be more than one sublessee in the Premises.

9.5 ADDITIONAL TRANSACTIONS. If Tenant is a corporation which is not the issuer of any security registered under Section 12(b) or 12(g) of the Securities Exchange Act of 1934, or is an unincorporated association, trust or partnership, the transfer, sale, assignment, pledge or hypothecation of any stock or interest in such corporation, association, trust or partnership in excess of thirty-three percent in the aggregate during the Term of the total stock or interest in such corporation, association, trust or partnership shall be deemed to be an assignment of this Lease for purposes of this Section 9.

9.6 LIMITATION. If Landlord does not terminate this Lease pursuant to Section 9.2, and if Landlord consents to the proposed transaction pursuant to Section 9.3, then, at any time within 60 days after such consent, Tenant may consummate the proposed transaction, at the price, and on the terms and conditions, and with the parties, specified in the notice referred to in Section 9.1. If the proposed transfer is not so consummated within such 60 day period, it shall again be subject to all of the provisions of this Section 9.

9.7 ASSIGNMENT AND SUBLETTING PROFIT RECAPTURE. Subject to the provisions of Section 9.8 below, in the event that the Tenant receives any net profits by virtue of any assignment of this Lease or any sublease of the Premises permitted hereunder, whether in the form of sublease rentals in excess of the Rent payable hereunder, periodic payments, "key" money, lump-sum payments, or otherwise, this Lease shall be deemed to be amended to provide, (a) in a case where such net profits are received in periodic payments, that the Rent hereunder for the term of such sublease or commencing with the effective date of such assignment, as the case may be, shall be increased by fifty percent (100%) of the net profits payable in periodic payments to Tenant in connection with such sublease or assignment and (b) in the case of "key" money, lump-sum payments, or other non-continuing payments, that such payments shall be promptly delivered in full to Landlord. Each assignor and assignee, in the case of an assignment, and each sublessor and sublessee, in the case of a sublease, shall be responsible for performance under this Section 9.6. "Net profits" for this purpose shall refer to all payments or other consideration received by Tenant in connection with the transaction, directly or indirectly, less reasonable amounts (collectively, "Deductions") for legal expenses and brokerage commissions incurred by Tenant with respect to such assignment or sublease and tenant improvement costs incurred by Tenant solely as an inducement to the transferee to consummate the assignment or sublease; provided, however, in the case where such net profits are received by Tenant in periodic payments, Deductions shall be evenly amortized over the period of such payments. Notwithstanding the foregoing, in the event that the transaction involves the transfer of property other than solely a sublease of the Premises or an assignment of Tenant's interest in the Lease, Landlord shall be fully advised of all relevant information concerning the transaction (including the total consideration for all aspects of the transaction) and shall be entitled to allocate a reasonable amount, based upon then current market rents and the total consideration to be received by Tenant in connection with the transaction, to the net profits, realized by Tenant in the sale of its interest in this Lease, notwithstanding the fact that the Tenant and the transferee may have made some different allocation among themselves.

9.8 PERMITTED SUBLESSEES. Notwithstanding anything to the contrary contained in Section 9, Tenant shall be permitted to sublease a portion or all of the Premises to a wholly-owned subsidiary of Edgemont Sales Company, Inc., or one in which the controlling interest of the proposed transferee is held by either Edgemont Sales Company, Inc., or by Mr. Ronald Kotloff, without the prior consent of Landlord. Landlord shall, however, be notified by Tenant in writing of such sublease. Tenant shall not be obligated to share with Landlord any sublease profits from such permitted sublease.

#### 10. SUBORDINATION.

10.1 TENANT'S AGREEMENT TO SUBORDINATE. Tenant, for itself and its subtenants, agrees, without the necessity of any further consideration or action, to subordinate all of its right, title and interest in and to this Lease to the lien of any mortgage or deed of trust now or hereafter encumbering the Premises or any portion thereof, and to all advances made or hereafter to be made upon the security thereof, provided, however, (i) that such beneficiary or beneficiaries shall agree in writing (on such beneficiary's standard non-disturbance agreement) delivered to Tenant to recognize all of Tenant's right, title and interest in and to this Lease so long as Tenant performs and complies with each and all of its covenants, agreements, terms and conditions under this Lease, (ii) that all terms of such indebtedness, including, but not by way of limitation, the precise amount thereof and the interest rate with respect thereto, shall be as determined solely by Landlord and such beneficiary or beneficiaries, and (iii) Tenant, for itself and its subtenants, shall within 10 days after Landlord or such beneficiary or beneficiaries provide

Tenant with written notice to do so, execute and deliver to Landlord such documents and take such further action as Landlord or such beneficiary or beneficiaries may deem necessary or advisable to effect or maintain such subordination. Tenant shall be liable to Landlord for all losses incurred by Landlord in the event of Tenant's failure to comply with Landlord's written request.

10.2 ATTORNMEN. Tenant, for itself and its subtenants, agrees that (i) upon delivery to Landlord of the written election of the beneficiary or beneficiaries of any mortgage or deed of trust encumbrance affecting the Premises which is superior to this Lease, that such encumbrance shall be deemed subordinate to this Lease, (a) this Lease shall, without the necessity of any further consideration or action whatsoever, be deemed superior to such encumbrance, whether this Lease was executed before or after the execution of such encumbrance, and (b) the beneficiary or beneficiaries of such encumbrance shall have the same rights with respect to this Lease as if this Lease had been executed and delivered prior to execution and delivery of such encumbrance and had thereafter been assigned to such beneficiary or beneficiaries and (b) if, by reason of Landlord's default under any encumbrance now or hereinafter affecting the Premises in any way, any or all of Landlord's right, title or interest in and to the Premises is terminated, Tenant (a) shall waive all rights at law or in equity now or hereafter in effect to terminate this Lease and surrender possession of the Premises, (b) shall attorn to the transferee, whether by foreclosure, judicial or trustees' sale, deed in lieu of foreclosure or otherwise, of any or all of Landlord's right, title or interest in or to the Premises, (c) shall recognize such transferee and its transferees as a Landlord under this Lease, and (d) shall execute and deliver to Landlord and to such transferee and its transferees within 10 days after Landlord, such transferee or its transferees may deem necessary or advisable to effect or maintain such attornment.

#### 11. DEFAULT AND REMEDIES.

11.1 DEFAULT. Tenant agrees that the occurrence of any of the following events shall constitute a material default ("Default") under this Lease by Tenant:

11.1.1 FAILURE TO PAY RENT. The continued failure of Tenant to pay in full when due any installment of Rent, or any other payment required to be made by Tenant hereunder, for 10 days after receipt by Tenant of written notice from Landlord of such failure; provided, however, that any such notice shall be in lieu of, and not in addition to, any notice required under Section 1161 et seq., of the California Code of Civil Procedure.

11.1.2 ABANDONMENT. The abandonment or vacation of the Premises by Tenant for more than 10 days without the prior written consent of Landlord, which consent may be granted or withheld in the sole but reasonable discretion of Landlord; provided, however, that any such notice shall be in lieu of, and not in addition to, any notice required under Section 1161 et seq., of the California Code of Civil Procedure.

11.1.3 BANKRUPTCY. The levy or attachment or other judicial seizure of all or substantially all of the assets of Tenant located in, on or about the Premises or of the right, title or interest of Tenant in and to this Lease unless dismissed within 30 days thereafter, the making by or on behalf of Tenant of any general assignment for the benefit of creditors, the voluntary or involuntary filing of a petition for adjudication of Tenant as insolvent or bankrupt or for reorganization

or arrangement under an insolvency act or any law relating to bankruptcy, unless dismissed within 30 days thereafter, the appointment of any receiver or trustee in any insolvency proceedings for Tenant or for all or substantially all of the assets of Tenant located in, on or about the Premises or for the right, title or interest of Tenant in and to this Lease, unless dismissed within 30 days thereafter, or the filing of any petition for or consent to any of the foregoing insolvency or bankruptcy matters.

11.1.4 OTHER. The continued failure by Tenant in the performance of or compliance with any of the other covenants, terms, or conditions of this Lease for 10 days after Landlord shall have given written notice of such failure to Tenant, provided, however, that if the nature of such Default is such that Tenant cannot reasonably cure such Default within said 10 day period, such failure shall not constitute a Default if Tenant shall, within such period of time, commence such performance and thereafter diligently and continuously pursue such performance or compliance to completion; and provided further, that any notice required hereunder shall be in lieu of, and not in addition to, any notice required under California Code of Civil Procedure Section 1161, as amended.

11.2 REMEDIES. In the event of a Default, Landlord may, in addition to all remedies or means of redress to which it may be lawfully or equitably entitled, in its discretion, while such Default continues:

11.2.1 TERMINATION. Terminate this Lease and any and all rights of Tenant hereunder, by any lawful means, in which event, Landlord, without the requirement of any further notice to Tenant, shall have the right immediately to enter the Premises and take full possession thereof, in which event Landlord shall also have the right to recover from Tenant (i) the worth at the time of award made on account of the Default resulting in such termination ("Award"), together with interest thereon at the maximum lawful interest rate per annum, of any unpaid portion of the Rent which had been earned by Landlord at the time of such termination, (ii) the worth at the time of Award, together with interest thereon at the maximum lawful interest rate per annum, of the amount by which any unpaid portion of the Rent which would have been earned after such termination until the time of Award exceeds the amount of loss of any unpaid portion of the Rent which Tenant proves could have reasonably been avoided, (iii) the worth at the time of Award, discounted at the discount rate of the Federal Reserve Bank of San Francisco at the time of the Award plus one percent, of the amount by which any unpaid portion of the Rent for the balance of the Term exceeds the amount of loss of any unpaid portion of the Rent which Tenant proves could have reasonably been avoided, and (iv) any and all other amounts necessary to compensate Landlord for all detriment proximately caused by such Default or which in the ordinary course of business would be likely to result therefrom, including, without limitation, any costs or expenses incurred by Landlord in maintaining or preserving the Premises after such Default, preparing the Premises for reletting to a new tenant, accomplishing any repairs or alterations to the Premises for purposes of such reletting, rectifying any damage thereto occasioned by the act or omission of Tenant and any other costs necessary or appropriate to relet the Premises.

11.2.2 CONTINUATION. Continue this Lease in full force and effect, but enforce any of its other rights and remedies hereunder, including, without limitation, the right to recover all of the Rent as it becomes due under this Lease, in which event the rights of Tenant to possession of the Premises under this Lease and the right of Tenant to assignment and sublease, if any, pursuant to the provision of Section 9 of this Lease shall continue, provided, however, that any acts of maintenance or preservation or efforts to relet the Premises by Landlord or the appointment of a receiver by Landlord to protect its right, title and interest in and to the Premises or any portion thereof or this Lease, shall neither constitute termination of this Lease nor interference with such rights of Tenant to possession, assignment and sublease.

11.2.3 ADDITIONAL RIGHTS. Pursue all rights and remedies of Landlord, which shall in any event be cumulative and not alternative, and shall be in addition to any and all rights provided by law or equity, in connection with which Tenant does hereby agree that (i) the waiver of any Default by Landlord shall be effective only if in writing signed and dated by Landlord and shall not in any event by continuing in nature or otherwise a waiver of any subsequent Default, (ii) the acceptance of any unpaid but due portion of the Rent shall be in mitigation of Landlord's damages and shall not, unless in writing signed and dated by Landlord, (a) constitute a waiver of any Default, or any of the rights and remedies of Landlord hereunder, at law or at equity or (b) invalidate or compromise any notice of a Default provided before such acceptance, or any deadline specified in such notice, and (iii) Landlord, in its discretion, without prejudice to any other remedies Landlord may have, may, following the continued failure of Tenant to cure any Default after receipt of written notice thereof, elect to cure any Default, in which event Tenant shall, within 10 days after Landlord provides Tenant with written notice to do so, pay to Landlord any and all costs and expenses incurred by Landlord in connection therewith.

### 11.3 LATE CHARGE AND INTEREST.

11.3.1 LATE CHARGE. In the event that any installment of Rent or any other sum payable by Tenant hereunder is not received by Landlord within five days of the date when due, a late charge of ten percent of such overdue installment or other payment shall be immediately and automatically payable by Tenant to Landlord, without the necessity of delivery of any notice.

11.3.2 INTEREST. In addition to the late charge payable pursuant to Section 11.3.1, any and all unpaid but due portion of the Rent and other payments by Tenant hereunder not received by Landlord within thirty days of the date when due shall bear interest at an annual rate equal to the lesser of (i) four percent in excess of the discount rate being charged by the Federal Reserve Bank of San Francisco on advances to member banks pursuant to Sections 13 and 13(a) of the Federal Reserve Act, as amended, as of the 25th day of the month preceding the date of execution of this Lease and (ii) the maximum rate permitted by applicable law.

## 12. MISCELLANEOUS

### 12.1 DEFAULT BY LANDLORD.

12.1.1 DEFAULT. Landlord shall not be in default under this Lease unless Landlord has failed to perform the obligations required of Landlord hereunder for more than 20 days after Tenant delivers written notice to Landlord; provided, however, that in the event the nature of Landlord's obligation is such that more than 20 days is required for complete performance, Landlord shall not be in default pursuant to this Section 12 if Landlord commences performance within such 20 day period and thereafter diligently prosecutes such performance to completion.

12.1.2 REMEDIES OF TENANT. Tenant's sole remedies for default by Landlord under this Lease shall be the right to damages and/or injunctive relief and in no event shall Tenant have the right to terminate this Lease or abatement hereunder as the result of Landlord's default.

12.2 ESTOPPEL CERTIFICATES. Tenant, for itself and its subtenants, hereby covenants and agrees (i) to execute, acknowledge and deliver to Landlord, from time to time during the Term within 10 days after Landlord provides Tenant with written notice to do so, an estoppel certificate substantially in the form attached hereto as Exhibit "I" certifying in writing (a) that this Lease is in full force and effect, unmodified or modified solely as set forth in such estoppel certificate, including, without limitation, confirmation of the Commencement Date, and the date of expiration of the Lease, (b) the dates to which Rent has been

paid, and (c) that Landlord has, as of the date of such estoppel certificate, fully and completely performed and complied with each and all of its covenants, agreements, terms and conditions under this Lease, without exception or except only as set forth in such estoppel certificate, (ii) that any such estoppel certificate may be conclusively relied upon by a prospective purchaser or encumbrancer of the Premises, and (iii) that the failure of Tenant to so deliver such estoppel certificate in such period of time shall be conclusive upon Tenant (a) that this Lease is in full force and effect, without modification except as may be represented by Landlord, (b) that the Rent has not been prepaid under this Lease except as required pursuant to the provisions of Section 2 of this Lease, and (c) that Landlord has, as of the date on which Tenant failed to deliver such estoppel certificate, fully and completely performed and complied with each and all of its covenants, agreements, terms and conditions under this Lease, without exception. At Landlord's option, the failure to deliver such statement within such time shall be a material default of this Lease by Tenant.

12.3 HOLDING OVER. If Tenant holds over in the Premises after the expiration of the Term or any extension thereof, with the express or implied consent of Landlord, such holding over, in the absence of written agreement on the subject, shall be deemed to have created a tenancy from month to month terminable upon 30 days' written notice given at any time by either party to the other, and otherwise subject to all the terms and provisions of this Lease. Rent shall be paid monthly and shall be computed on the basis of one-twelfth of the total Rent estimated by Landlord to be payable by Tenant to Landlord for the next succeeding twelve-month period. Notwithstanding the foregoing, in the event Tenant fails to surrender the Premises on the expiration of this Lease, in addition to any other liabilities to Landlord accruing therefrom, Tenant shall indemnify, defend and hold Landlord harmless from and against any damages, loss and liability resulting from such failure to surrender, including, without limitation, any claims of any succeeding Tenant founded upon such failure to surrender.

12.4 QUIET ENJOYMENT. So long as Tenant continues to perform and comply with each and all of the terms and conditions to be performed and complied with under this Lease, and subject to (i) all federal, state, county and municipal statutes, laws, ordinances, rules, regulations and orders and (ii) all of the provisions of (a) this Lease, (b) any encumbrance now or in the future affecting the Premises, (c) any reciprocal easement agreement conditions, covenants or restrictions now or in the future affecting the Premises and (d) any policy of insurance now or in the future affecting the Premises, Landlord does hereby covenant and agree that Tenant shall lawfully, peaceably and quietly have, hold, occupy and enjoy the Premises during the Term or any extension thereof, without hindrance or interference with its quiet enjoyment and possession by any persons lawfully claiming under Landlord.

12.5 FORCE MAJEURE. In the event that either party is delayed or hindered from the performance of any act required hereunder by reason of strikes, lock-outs, labor troubles, inability to procure materials not related to the price thereof, failure of power, restrictive governmental laws and regulations, riots, insurrection, war or other reasons of a like nature not the fault of such party, then performance of such acts shall be excused for the period of the delay, and the period for the performance of any such act shall be extended for a period equivalent to the period of such delay. The provisions of this Section 12.5 shall not, however, operate to excuse Tenant from prompt payment of Rent or any other payment of money required under the terms of this Lease.

12.6 SALE OF THE PREMISES. In the event of any sale or exchange of the Premises by Landlord or an assignment by Landlord of this Lease (including, without limitation, any so-called "sale-leaseback" transaction), Landlord shall automatically be relieved of any and all obligations on the part of Landlord accruing from and after the date of such sale, exchange, or assignment, including, without limitation, any obligation to Tenant with respect to the Security Deposit upon assignment



of the same to the transferee; provided, however, that (i) the interest of the transferor, as Landlord, and any funds then in the hands of Landlord in which Tenant has an interest shall be turned over, subject to such interest, to the transferee, and (ii) notice of such sale, transfer, exchange or lease shall be delivered to Tenant as required by law. No holder of a mortgage, deed of trust or other encumbrance to which this Lease is or may be subordinate shall be responsible in connection with the transfer of said security deposit hereunder, unless such mortgagee or holder of such deed of trust or lessor shall have actually received such security deposit.

12.7 CONSTRUCTION WARRANTIES. Following delivery of the Premises, following request by Tenant, assign to Tenant the right to enforce any warranties or guaranties held by Landlord (and which are assignable) with respect to portions or components of the Premises which Tenant is required to maintain and repair pursuant to Section 5.1; provided, however, that any expiration or sooner termination of this Lease shall automatically be deemed an assignment of the same by Tenant to Landlord and following request by Landlord, Tenant shall execute and deliver all instruments requested of it to confirm such assignment.

12.8 RECORDING. Tenant shall not under any circumstances record this Lease. Should either party desire to evidence this Lease of record, Landlord and Tenant agree to execute and acknowledge a Memorandum of Lease and the party requesting recordation shall pay for all costs of recordation and any documentary transfer tax.

12.9 FINANCIAL STATEMENTS. Upon Landlord's written request, Tenant shall promptly furnish Landlord, from time to time, with certified financial statements also certified by Tenant to be true and correct reflecting Tenant's then current financial condition.

12.10 ACCESS BY LANDLORD. Landlord and Landlord's agents shall have the right to enter the Premises at reasonable times upon reasonable prior notice (which notice shall not be necessary in the case of emergency) and in such a manner so as to not interfere with Tenant's business to examine the Premises and to show the same to prospective purchasers or tenants of the Premises, to make such repairs, alterations, improvements or additions as may be required in connection with the development or maintenance of the Premises, without the same constituting an eviction of Tenant, in whole or in part, or a trespass; provided, however, that in no event shall Tenant be entitled to injunctive relief to enforce any or all of its rights under this Section 12.10, and the Rent shall not abate while said repairs, alterations, improvements or additions are being made, by reason of loss or interruption of business of Tenant or otherwise. During the six months prior to the expiration of the Term, Landlord may place upon the Premises "to let" or "for sale" notices or signs which Tenant shall permit to remain thereon. Nothing herein contained shall be deemed or construed to impose upon Landlord any obligation, responsibility or liability whatsoever for the care and maintenance or repair of the Premises, or any part thereof except as is specifically provided in this Lease.

12.11 NOTICES. All notices and other communications pertaining to this Lease shall be in writing and shall be deemed to have been given only when delivered personally or 48 hours after being mailed, certified or registered mail, return receipt requested, postage prepaid, to the respective addresses set forth in Item 10 of the Fundamental Lease Provisions or to such other addresses as any of the parties hereto may from time to time in writing designate to the other parties hereto.

12.12 TIME. Time is of the essence of this Lease with respect to each and every provision of this Lease in which time is a factor.

12.13 ENTIRE AGREEMENT. This Lease, including, but not by way of limitation, the exhibits attached hereto and made parts hereof, sets forth the entire agreement between the parties hereto, fully

supersedes any and all prior agreements or understandings between the parties hereto pertaining to the subject matter hereof and no change in, modification of or addition, amendment or supplement to this Lease shall be valid unless set forth in writing and signed and dated by each and all of the parties hereto subsequent to the execution of this Lease.

12.14 FURTHER ASSURANCES. Each of the parties hereto, without further consideration, agrees to execute and deliver such other documents and take such other action as may be necessary to more effectively consummate the purposes and subject matter of this Lease.

12.15 APPLICABLE LAW. The existence, validity, construction and operational effect of this Lease, all of its covenants, agreements, terms and conditions and the rights and obligations hereunder of each of the parties hereto shall be determined in accordance with the laws of the State of California, provided, however, that any provision of this Lease which may be prohibited by law or otherwise held invalid shall be ineffective only to the extent of such prohibition or invalidity and shall not invalidate or otherwise render ineffective any or all of the remaining provisions of this Lease and under no circumstances whatsoever shall this Lease be construed as creating either a partnership, an agency or an employment relationship between the parties hereto.

12.16 CONTROVERSY. In the event of any controversy, claim or dispute between the parties hereto arising out of or relating to this Lease, the prevailing party shall be entitled to recover from the nonprevailing party, reasonable expense, including without limitation, reasonable accountants' and attorneys' fees.

12.17 HEADINGS AND GENDER. The section headings used in this Lease are intended solely for convenience of reference and shall not in any way or manner amplify, limit, modify or otherwise be used in the interpretation of any of the provisions of this Lease and the masculine, feminine or neuter gender and the singular or plural number shall be deemed to include the others whenever the context so indicates or requires.

12.18 SUCCESSORS. Subject to the provisions of Section 9 of this Lease, the covenants, agreements, terms and conditions contained in this Lease shall be binding upon and inure to the benefit of the successors and assigns of the parties hereto.

12.19 CORPORATE AUTHORITY. If Tenant is a corporation, each individual executing this Lease on behalf of said corporation represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of said corporation, and that this Lease is binding upon said corporation in accordance with its terms.

### 13. ADDENDUM

The provisions of this Section 13 shall supersede and override any other provisions in this lease to the extent the same are inconsistent:

13.1 RENTAL ADJUSTMENTS. Commencing with the first day of the 31st full calendar month of the Initial Term and effective for each month of the remainder of the Initial Term, Basic Monthly Rent shall be increased by 12.5%. At the commencement of the 61st and 91st months of the Term, the Basic Monthly Rent in effect at the time of adjustment shall be similarly increased by 12.5%.

13.2 OPTION TO RENEW. Tenant shall have the option to extend the Initial Term (the "Option") on the basis of each and all of the terms and conditions contained in this Lease, as then amended, for one period of ten (10) years (the "Optional Period") commencing the day after the expiration of the Initial Term, and unless sooner terminated in accordance with the terms and conditions hereof, ending on the last day of the tenth consecutive Lease Year thereafter. Such option shall be exercised by Tenant by giving written notice ("Option Notice") of exercise to Landlord at least 12 months prior to the expiration of the Initial Term.

Notwithstanding the foregoing, in the event (1) Tenant is in default on the date the Option Notice is given or (ii) should Landlord have given to Tenant three or more notices regarding Tenant's failure to pay rent when due during the Initial Term, or (iii) should Tenant be in default on the date the Initial Term expires, then in each event Tenant's Option shall be deemed automatically terminated.

13.3 CALCULATION OF RENT DURING OPTION PERIOD. The initial monthly installments of Rent for the Option Period shall be the greater of (i) the Rent payable for the month immediately preceding the Option Period or (ii) the fair market rental rate prevailing for monthly rent for the lease of an equivalent amount of comparable space in a building of like quality, use and location within an area of 10 miles of the Premises with improvements similar to and of quality comparable with that of the improvements contained within the Premises (including all such improvements made pursuant to the Construction Provisions) (the "Fair Market Rental Rate").

13.3.1 CALCULATION OF FAIR MARKET RENTAL RATE. Within thirty (30) days of Tenant's Option Notice, Landlord shall notify Tenant of the Rent (the "Proposed Rent") for the Option Period. In the event Landlord and Tenant are unable to agree upon the fair market rental rate for the Premises within the 30-day period (the "Negotiation Period") following the date Tenant exercises the Option, the Option shall terminate and be of no further force or effect unless within fourteen (14) days following the expiration of the Negotiation Period Tenant delivers to Landlord written notice (the "Appraisal Notice") of its desire to determine the fair market rental rate for the Premises by the appraisal method set forth below. In the event Tenant elects for appraisal, Tenant shall, at Tenant's sole expense, with thirty (30) days from the date of delivery of the Appraisal Notice, deliver to Landlord a written appraisal report, prepared by an MAI appraiser of Tenant's choice, which shall state the appraiser's estimate of the fair market rental rate for the Premises. If Landlord objects to such appraisal report, Landlord shall, within (30) days of receipt of such appraisal report, obtain at Landlord's sole expense, an appraisal of the market rental rate for the Premises from an appraiser of Landlord's choice. If Landlord and Tenant are unable to agree upon the fair market rental rate for the Premises after reviewing the two appraisal reports, the two appraisers shall select a third MAI appraiser, whose expense shall be borne equally by the parties, and who shall appraise the fair market rental rate for the Premises. The three appraisers shall then calculate the average of the two appraisals which are closest in valuation, which average shall be deemed to be the Fair Market Rental Rate.

13.4 ADJUSTMENTS TO RENTAL RATE DURING OPTION PERIOD. In the event Tenant exercises the Option as set forth hereinabove, the rent during the Option Period shall be adjusted at the 31st, 61st and 91st months of the Option Period in the manner and in the same amount as set forth in Section 13.1 herein.

13.5 RENT RELIEF. Landlord acknowledges that Tenant is presently under lease at another location in the area of the Premises, said location being 11082 Winners Circle, Los Alamitos, California, and has a rent obligation under the terms of that lease that is not due to terminate until December 31, 1989. Landlord hereby agrees that from the Rent Commencement Date herein to such time as Tenant is relieved of this other rent obligation, but, in any event not beyond December 31, 1989, Tenant's shall be granted an abatement of its Basic Monthly Rent herein by an amount equal to fifty percent (50%) or Tenant's base monthly rental obligation at the other location; provided, however, shall in no event shall said rent abatement be greater than \$2,500.00 per month.

EXHIBIT "A"  
PLOT PLAN OF PREMISES

[GRAPHIC SHOWING PLOT PLAN OF LEASED PREMISES]

## EXHIBIT "B-1"

## LEGAL DESCRIPTION OF THE PREMISES

That certain parcel located on Gateway Drive, Cypress, California, more specifically described as follows:

Parcel 2 of Parcel Map 85-425, as recorded in Book 211, Pages 42 through 45 of Parcel Maps, Records of Orange County, California

## EXHIBIT "B-2"

## LEGAL DESCRIPTION OF THE BUSINESS CENTER

## Parcel 1

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 Parcels 1 through 21 inclusive in the City of Cypress, County of Orange, State of California, as shown on a Parcel Map, filed in Book 124, Pages 5 and 6 of Parcel Maps, in the Office of the County Recorder of said County.

## Parcel 2

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 That portion of the north half of the south half of section 22, Township 4 South, Range 11 west in the Rancho Los Alamitos, in the City of Cypress, County of Orange, State of California, as section is shown on Map No. 2 attached to the final decree of partition entered in the Superior Court of Los Angeles County, Case No. 13527, a certified copy of said final decree having been recorded February 2, 1891 in Book 14 page 31 of Deeds of said Orange County described as follows:

Beginning at the intersection of the westerly line of said south half of Section 22 with the northeasterly line of said Rancho Los Alamitos, as shown on a map filed in Book 37 Page 17 of record of surveys, records of said Orange County; thence along said Rancho line southeasterly 689.27 feet to the southwesterly corner of Tract No. 4670 as shown on a map recorded in Book 163 pages 48 to 50 inclusive of miscellaneous maps, records of said Orange County; thence continuing along said Rancho line and along the southwesterly line of said Tract No. 4670 and along the southwesterly line of Tract No. 4399 as shown on a map recorded in Book 175 pages 46 and 47 of miscellaneous maps, records of said Orange County, southeasterly 1471.10 feet to an angle point in said Tract No. 4399; thence continuing along said Rancho line as shown on said map of Tract No. 4399, southeasterly 728.52 feet to the center line of Holder Street as shown on said map of Tract No. 4399; thence along said center line of Holder Street, South 00 degrees 45 minutes 02 seconds east 34.50 feet to a point in the northerly line of that 60.00 foot wide strip of land described in the Deed to the Southern Pacific Railroad Company recorded January 13, 1897 in Book 29 page 328 of Deeds, records of said Orange County, said line being a curve concave southerly and having a radium of 5759.60 feet, a radial line to said point bears north 04 degrees 26 minutes 13 seconds east; thence westerly along said curve through a central angle of 04 degree 24 minutes 00 seconds an arc distance of 442.31 feet and north 89 degrees 57 minutes 47 seconds west 2285.96 feet to said westerly line of the south half of Section 22; thence along said westerly line north 00 degrees 00 minutes 14 seconds east 968.40 feet to the point of beginning.

Except therefrom that portion of said land included within the lines of the land described in Parcel 1 of the Deed to the City of Cypress recorded July 27, 1967 in Book 8323 page 979 of Official Records, records of said Orange County.

Also except therefrom that portion of said land included within the lines of the land described in the deed to the Orange County Flood Control District recorded

December 4, 1959 in Book 4999 page 460 of Official Records, Records of said Orange County.

Also except all coal, chemicals, petroleum, oil, gas, asphaltum and other hydrocarbons, and all minerals, metals and mineral ores, whether similar to those herein specified or not, of every kind and character now known to exist or hereafter discovered upon, within or underlying said land, together with the exclusive and perpetual right of the grantee, its successors and assigns, of ingress and egress beneath the surface of said land to explore for, extract, mine and remove the same and to make such use of said land beneath the surface as is necessary or useful in connection therewith, which use may include lateral or slant drilling, digging, boring or sinking or wells, shafts, tunnels or other methods, together with the further exclusive and perpetual right of the grantee, its successors and assigns, to make such use of said land as may be necessary to store, keep, deposit and/or remove all coal, chemicals, petroleum, oil gas, asphaltum and other hydrocarbons and all minerals, metals and mineral ores, whether similar to those herein specified or not, of every kind and character now known to exist or hereafter discovered; provided, however, that the grantee, its successors or assigns, shall not use the surface of said land above a five hundred foot depth in the exercise of any of said rights as granted to Consolidated Pacific Investment Company, by deed recorded January 29, 1959 in Book 4567 page 496 of Official Records.

Said land is included within the area shown on a map filed in Book 37 page 17 of Record of Surveys in the Office of the County Recorder of said Orange County.

## EXHIBIT "C"

## CONSTRUCTION PROVISIONS

Landlord shall provide improvements to the Premises, subject to the terms and conditions set forth below:

1. SUBMISSION AND APPROVAL OF PLANS. Landlord and Tenant acknowledge that preliminary space plans dated May 26, 1988, (the "Preliminary Plans"), showing the layout of all partitions and doors and specifications for the works to be performed in the Premises (the "Tenant Improvements"), have been prepared by Howard F. Thompson & Associates (the "Project Architect") and have been approved by both parties, are attached hereto as Attachment 1 and are incorporated herein by reference. Within thirty (30) days following execution of this Lease, Tenant shall cause the Project Architect, at Tenant's sole cost and expense, to prepare and deliver to Landlord working drawings (the "Working Drawings"). The expense of the Working Drawings may be credited against the Tenant Improvement Allowance (see Section 6 below). The Working Drawings shall include mechanical, electrical and structural engineering drawings showing in detail all Tenant Improvements, including all ducting for heating, ventilation and air conditioning ("HVAC"). Within 3 days following Landlord's approval of the Working Drawings, Tenant shall have prepared and delivered to Landlord complete and final plans (the "Final Plans") which incorporate the information detailed in the Preliminary Plans, Working Drawings and Landlord's comments thereto, and which shall include the final space plan for the layout of all partitions, doors, light fixtures, electrical and telephone outlets, wall, floor, window and door finishes, hardware, material and coverings, reflected ceiling plans and all other Tenant Improvements.

2. REVIEW AND APPROVAL PROCESS. Tenant shall submit the Working Drawings to Landlord for its approval. Within 5 business days of receipt of said drawings, Landlord shall return them to Tenant marked either "approved" or "disapproved" (in the latter case modifications and revisions will be noted). Upon receipt of any such disapproval, Tenant shall (i) promptly revise the particular plans or drawings to incorporate and satisfy all of Landlord's objections and take such action as may be reasonably required to provide for full and final approval of such plans or drawings. Tenant shall not deviate from the final Plans, once approved by Landlord, unless done so in strict accordance with the procedures set forth in Paragraph 7 regarding requests for a Change order, except to the extent such changes are required for permit approval and issuance. Approval of the Working Drawings or Final Plans by Landlord shall not constitute the assumption of any responsibility by Landlord for their accuracy, efficacy or sufficiency, and Tenant shall be solely responsible for such items.

3. COMPLETION OF IMPROVEMENTS. Following approval of the Final Plans for Tenant Improvements by Landlord and the appropriate governmental authorities, Landlord shall proceed with due diligence to construct the Tenant Improvements in a workmanlike manner. Subject to the provisions of these Construction Provisions, Landlord shall use its best efforts to have the Tenant Improvements substantially completed (as defined in Paragraph 8) by November 1, 1988; provided, however, in no event shall Landlord be liable to Tenant in the event such work is not completed by such date.

4. TENANT DELAY. Tenant Delay shall include, but shall not be limited to, any delay in the occurrence of the Commencement Date or in the completion of the Tenant Improvements resulting from (i) Tenant's failure to comply with the provisions of these Construction Provisions, (ii) submission by Tenant of a request for any Change Order as specified in Paragraph 7, or (iii) any additional time, as reasonably determined by Landlord, required for implementation of any Change Order with respect to the Tenant Improvements.



5. CONTRACTOR. The General Contractor for the construction of the Tenant Improvements shall be selected by Landlord after reasonable consultation with Tenant. The General Contractor shall bid out all major construction disciplines to a minimum of three subcontractors.

6. COSTS. Landlord shall pay for the costs associated with construction the Tenant Improvements (the "Tenant Improvement Costs") up to a maximum amount of \$450,000.00, subject to the following conditions:

6.1 If the total Tenant Improvement Costs are less than \$375,000.00, the Base Rental set forth in the Lease shall be reduced by a factor of 1.075% multiplied by the amount by which the actual Tenant Improvement Costs are less than \$375,000.00.

6.2 If the total Tenant Improvement Costs are greater than \$375,000.00, the Base Rental set forth in the Lease shall be increased by a factor of 1.075% multiplied by the amount by which the actual Tenant Improvement Costs exceed \$375,000.00; provided that subparagraph 6.2 shall not apply to any Tenant Improvement Costs to the extent they exceed \$450,000.00.

6.3 Tenant (not Landlord) shall be responsible for all Tenant Improvement Costs in excess of \$450,000.00. If at any time prior to completion of the Tenant Improvements, the General Contractor determines, in the exercise of its reasonable business judgment, that the Tenant Improvement Costs will exceed \$450,000.00 (the "Excess Tenant Improvement Costs"), then Landlord shall give Tenant a written statement setting forth the General Contractor's estimate of the Excess Tenant Improvement Costs necessary to complete the Tenant Improvements. Tenant shall pay to Landlord, in cash, an amount equal to the Excess Tenant Improvement Costs set forth therein, as such costs are incurred by Landlord. If the total amount of actual Excess Tenant Improvement Costs necessary to complete the Tenant Improvements is greater than the amount of Excess Tenant Improvement Costs paid by Tenant, then Tenant shall pay to Landlord, in cash, such difference on or before occupancy of the Premises by Tenant. If the total amount of actual Excess Tenant Improvement Costs necessary to complete the Tenant Improvements is less than the amount of Excess Tenant Improvement Costs paid by Tenant, then Landlord, at its option, may either reimburse Tenant for this difference or apply such difference to Tenant's first month's rental payment.

6.4 The Tenant Improvement Costs shall include all costs incurred by Landlord for the construction of the Tenant Improvements, including, but not limited to governmental fees and permits, structural engineering review, and out of pocket architectural fees and costs incurred in reviewing all plans. In addition, at Tenant's option, the Tenant Improvement Costs may include the out of pocket costs incurred by Tenant in the preparation of the Preliminary Plans, Working Drawings and Final Plans prepared in connection with the Tenant Improvements.

7. PROCEDURE FOR CHANGE ORDERS. Tenant may request any change, addition or alteration in the Improvements as shown on the Final Plans (a "Change Order") following preparation and approval thereof, by delivery of a written request therefor and complete working drawings showing the change, addition or alteration provided that such change, addition or alteration does not (i) affect the scheduled completion date of the Improvements or (ii) increase Landlord's costs. Landlord shall promptly, following receipt of such request, give Tenant a written description of (i) modifications or revisions required by Landlord in order to approve such Change Order, (ii) the Tenant Delay expected because of such Change Order, and (iii) an itemized nonbinding estimate of the cost of implementing the Change Order. The standards of Landlord's approval for the Improvements shall also apply to Change Orders. Following receipt of such description and estimate, Tenant shall deliver to Landlord written notice either granting or withholding authorization to proceed with the performance of the work shown on the Change Order. If no such authorization is received by Landlord within five business days thereafter, Tenant shall be deemed to have withheld authorization to proceed with the performance of the work shown on the Change Order.

## 8. SUBSTANTIAL COMPLETION AND PUNCH LIST ITEMS.

(a) For purposes of this Lease, substantial completion of the Tenant Improvements shall be defined as the date on which the Project Architect certifies that the Tenant Improvements have been substantially completed in accordance with the Final Working Drawings such that Tenant could reasonably occupy or otherwise utilize the Building for the use which it is intended (the "Tenant Improvements Certificate").

(b) Within 7 business days after receipt of the Tenant Improvements Certificate, Tenant shall supply to Landlord a written punch list ("Punch List") setting forth the additional corrective work with respect to the Tenant Improvements which Tenant believes is required to be performed pursuant to the Final Working Drawings. In the event that no such punch list is provided by Tenant within said 7-day period, Tenant shall be deemed to have accepted the Premises in their entirety and Landlord shall have no further obligation with respect to completion of the Premises or of the Improvements. Landlord shall use all reasonable efforts to complete all of the items on the Punch List within 15 business days of receipt of the Punch List from Tenant.

9. ACCEPTANCE OF THE BUILDING. Other than changes to the Building contemplated by the Tenant Improvements, Tenant hereby accepts the condition of the Building as of the date hereof and subject to all existing building codes, zoning ordinances and other municipal, county and state laws, ordinances, and regulations governing and regulating the Building. Landlord hereby represents and warrants to Tenant, during the course of construction of the Tenant Improvements, that the concrete slab on which the Building sits is suitable for construction thereon of the Tenant Improvements contemplated in these Construction Provisions. Tenant acknowledges and agrees that neither Landlord nor Landlord's agents has made any representation or warranty as to the present or future suitability of the Building for the conduct of Tenant's business.

EXHIBIT "D"

TENANT'S CERTIFICATE

To: WARLAND INVESTMENTS, LTD.

Date: \_\_\_\_\_, 198\_\_\_\_  
Building Address:

The undersigned as the Tenant under that certain Lease (the "Lease") dated \_\_\_\_\_, 198\_\_\_\_ made and entered into between Warland Investments, Ltd., as Landlord, and the undersigned, as Tenant, hereby certifies that:

1. The Commencement Date of the Lease was \_\_\_\_\_, 198\_\_\_\_.
2. The expiration date of the Lease is \_\_\_\_\_, 198\_\_\_\_.
3. The Lease is in full force and effect and has not been modified or amended.

Very truly yours,

\_\_\_\_\_

a \_\_\_\_\_

By \_\_\_\_\_

Its \_\_\_\_\_

Tenant

## SITE SIGNAGE FOR WARLAND/CYPRESS BUSINESS CENTER

The intent of this signage guideline is to provide the regulations and parameters necessary to achieve a visually coordinated, balanced and appealing signage system throughout the Warland/Cypress Business Center. A system that promotes compatibility with the building and landscape design of present and planned facilities.

## A. PROJECT IDENTIFICATION SIGN

Each tenant that occupies an entire building is permitted signage on an exterior monument sign as outlined in Exhibit A. The sign shall be installed behind any existing property lines and is subject to any regulations established by the City of Cypress. The concrete base shall remain unpainted and match all other monument signs, promoting a visual consistency for all projects in Warland/Cypress Business Center. The fabricated aluminum cabinet shall be internally illuminated with all sign copy, colors and graphics subject to approval by Warland Investments, Ltd. The tenant is responsible for the design of the sign face, required permits, construction, and installation of all monument and site signs.

## B. PROJECT SITE SIGNS

Each project will require adequate vehicular information signs at each parking area entry. The signs shall consist of fabricated, non-illuminated, cabinets with 3M white vinyl copy and unpainted concrete bases. Sizes and specifications are noted in Exhibit B. All site signs will require permits from the City of Cypress.

[GRAPHIC DEPICTION OF FRONT AND END ELEVATION, INCLUDING SIZES AND SPECIFICATIONS OF PERMISSIBLE SIGNAGE]

Exhibit A

[GRAPHIC DEPICTION OF FRONT AND END ELEVATION, INCLUDING APPLICABLE SIZES AND SPECIFICATIONS, FOR VEHICULAR INFORMATION SIGNS]

Exhibit B

EXHIBIT "F"  
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LANDSCAPE MAINTENANCE  
SPECIFICATIONS

FOR  
WARLAND CYPRESS BUSINESS PARK

LANDSCAPE MAINTENANCE SPECIFICATIONS  
-----

The work involved which shall be performed includes, but is not limited to, any ground cover areas, lawns, flower beds, pathways and parking lots. Contractor shall furnish all necessary labor, supervisions, equipment tools, materials, transportation, permits, insurance, and taxes in his performance of these specifications. He shall perform maintenance in accordance with the highest horticultural standards keeping the premises/site in first class condition. All landscaping debris shall be removed from premises by the contractor.

A. GENERAL MAINTENANCE  
-----

1. All lawns shall be mowed and edged weekly or more, if necessary.
2. All cuttings shall promptly be collected and disposed off site and on the same day.
3. All landscape shall be cleaned of grass cuttings, etc. on the same day as mowing.
4. The height of grass shall be kept at 2 inches in winter and 2-1/2 inches to 3 inches in summer. This applies to cool season blade grass.
5. Complete chemical weed, fungus, insect control and rodent, as necessary including materials, labor and permits, if necessary.
6. Complete fertilization of all lawns not less than four times per year in accordance with subsequent fertilization specifications. Fertilizer to be purchased and applied by contractor at no additional expense to the tenant.
7. Adequate watering of all lawn areas unless unnecessary due to rainfall at least 1/2 inch or more after all fertilization.

B. TREES, SHRUBS, AND PLANTER BEDS  
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1. Shrubbery, plants and trees shall be manicured/pruned regularly to contain their size in respect to specifications, size of planter or relative to surroundings and to the best health of the plant. NOTE: "LOLLY-POP" pruning of shrubs is not acceptable. Prune by removing branches. Shearing is only permitted with hedges. Clarify hedges with Landscape Architect.



See graphic examples for more detail information on shrub pruning.

2. All trees over 10 ft. in height will have a tree pruning service handle pruning at the tenants company's expense. Pruning of trees will include a minimum annual pruning. Coral trees will be thinned by removing whole branches and not topped unless direct to by the Landscape Architect. Seal all pruned limbs 1-1/4" or larger with proper seal. Coordinate all pruning with the Landscape Architect. Refer to graphic examples for specific tree pruning techniques.
3. All cuttings shall be disposed of off-site (the same day).
4. Complete insect and disease control of all trees and shrubs, including labor and materials.
5. Minor tree surgery as necessary.
6. Adequate watering of all trees, shrubs and planting beds unless unnecessary due to adequate rainfall.
7. Monthly cultivation of water basin repair of all shrub and tree areas.
8. Deep root feeding of all trees twice per year and during the spring and late summer months. This is on a "need" basis and will be billed as an addition to the tenant.
9. Complete fertilization of trees and shrubs not less than twice per year, by the use of deep root watering applications. Formula to be specified by Landscape Architect for each site.

C. FLOWER BEDS AND/OR GROUND COVER

- 
1. Complete trimming, edging of all flower beds and ground covers, monthly. Note: Weed whip at base of trees in lawn areas is not allowed due to damage to cambium at base of tree. Hand pruning is required.
  2. Monthly cultivation of all ground cover and flower bed areas.
  3. Weeding shall be performed regularly to avoid establishment and seeding. It will be unsatisfactory to allow weeds to grow unabated for more than two weeks.
  4. Complete insect and disease on all flower and ground cover beds including labor and materials.

5. Adequate watering of all beds unless unnecessary due to rain.
6. Routine repairs of erosion and other damages to beds and slopes due to normal maintenance conditions.
7. Replacement of ALL damaged or destroyed plants, flowers or ground cover, in accordance with original planting plan\* including only labor. Materials to be paid for by tenant. Damage caused by vandalism or winds not covered by this section.  
  
\*Contractor to get copies of as-built irrigation and planting plans from tenant or owner.
8. Complete fertilization not less than four times per year with 16-8-8 in accordance with subsequent fertilization specifications. Formula to be verified by Landscape Architect.

#### D. IRRIGATION SYSTEM

- 
1. Contractor shall continually inspect and repair, as necessary, all sprinkler heads for full coverage and adjustment. Adjust heads to reduce spray on buildings, sidewalks or other non-landscaped areas. Should poor coverage of localized areas become evident, contractor shall rectify the problem by adding new sprinklers or lines. To be verified by Landscape Architect, Owner, or representative.  
  
NOTE: The maintenance contractor is required to be aware of all site conditions such as poor soil, poor drainage, high water table and shade vs. sun irrigation areas.
  2. Contractor shall provide all necessary repairs to maintain system in effective operating conditions.
  3. Contractor shall adjust controllers and clocks for seasonal conditions.
  4. Repairs to system shall be made with originally specified materials. Such materials may be charged extra at contractor's expense.
  5. The labor for repairing the irrigation system shall be formulated by the contractor at no additional charge to the tenant. However, labor for major repairs such as controllers, valves and mainlines, or installation on items may be charged extra at current agreed rates.

## E. FERTILIZATION

- 
1. Contractor shall fertilize all landscape areas at least four times annually to keep landscaping in a healthy state and green color.
  2. All lawns, trees, shrubs, shrub beds, flower beds and ground covers will be fertilized not less than four times annually utilizing fertilizer type 16-8-8 analysis at recommended rates, or if available, revise to Soil & Plant Lab recommended analysis. Contact Landscape Architect for a copy of the soils report.
  3. All fertilizer materials shall be included at contractors cost.

## F. ANNUAL COLOR PLANTING

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A minimum amount of annual color plants will seasonally be added to the project. All materials and labor for installation will be provided by the contractor. Coordination for type and color of plantings will be by Landscape Architect. In most situations, Begonia richmondensis and Begonia Indian Maid, 4" pots, 10" O.C. is the theme street color to be used.

## G. EXTRA SERVICES

- 
1. All plant, shrub, flower beds, ground cover and tree removal or replacement shall be accomplished only with approval of the tenant or Landscape Architect.
  2. Contractor shall furnish Landscape Architect or tenant with itemized estimate for any extra work required. He shall not proceed without authorization from the proper representative.
  3. A specified amount of man hours should be provided per week, per project to comply with adequate maintenance practices.

## H. SITE INSPECTION AND REVIEW

- 
1. Contractor or representative will inspect entire project at least ONCE A MONTH and a supervisor will spot check each site at least ONCE A MONTH.
  2. Contractor will communicate with property Owner and tenant every six months (either verbally or written report).
  3. Landscape Architect shall review site at six month intervals, or more often if warranted.

PRUNING

GENERAL PRUNING GUIDELINES (Refer to drawings following this text for more specific information)

The basic reasons for pruning are to maintain plant health by removing dead, diseased or damaged wood. Proper pruning is both a skill and an art. The skill is making proper cuts that will heal well. The art is making cuts in the right places so the plant will develop to its full potential of beauty.

The terminal bud develops at the end of a stem or branch. This causes the stem to grow in length. In some plants there may be latent buds. These buds lie dormant but will grow after pruning or injury removes the actively growing parts of the stem. During the season of active growth, terminal buds draw plant energy to themselves in order to grow and add length to the stems. Therefore, when you cut off a branch, it does not mean that there will be a void where the plant/tree was pruned. In time, the terminal bud will produce a stem to replace the missing branch or stem. Keeping this principal in mind, it makes sense when pruning a plant. If you want side growth, prune the top of the tree/ shrub forcing the side buds to elongate and by trimming the side growth, the top will elongate and grow.

#### TREE TOPPING

While with some trees (such as; *Erythrina caffra* or Coral trees), it is necessary to shape or "head back" the top of the tree in order for it to develop a good canopy, in general, we do not recommend topping. The life expectancy of a topped tree declines - sometimes dramatically - in comparison to a tree that is properly pruned. Excessive removal of mature branches reduces the tree's ability to manufacture and store food and - very importantly - heal itself. Most people are aware that a tree has the ability to "grow a new skin" over a wound, but if a major branch is removed, the large cut can give diseases and insects a greater opportunity to get a foothold before the slow natural process has a chance to take place.

#### THINNING

Thinning or thinning out means removing some branches at the point of origin, leaving more space between remaining branches. A special form of thinning on larger trees is called drop crotch pruning in which a main branch is removed at a large lateral branch, the cut being made at the crotch. It usually accomplishes the opening up of a plant by simplification of its structure; removal of old and unproductive growth, weak or excess growth, or limbs that are growing in directions that detract from the plant's attractiveness.

Observations indicate that a thinned tree will usually take longer to grow back to the critical height than a headed tree. The finest compliment an arborist can receive after materially reducing the size or density of a tree is when passers-by fail to notice its pruned condition. Thinning out requires greater skill and time than heading, but in most situations, it is worth the effort. It will retain the tree's characteristic form and will minimize the problems of decay and regrowth.

## PRUNING TO SHAPE

"To Shape" is another concept in which the artistic side of pruning comes forward in determining your concept of what the right shape of a particular plant should be. Every plant has a "natural" shape; its growth tends to conform to a natural pattern, whether round, gumdrop shaped, wide spreading, vase shaped, or arching. Observe what a plant's natural shape is and then prune the plant in a manner that will allow the natural form to continue to develop. Remove excess growth that obscures the basic pattern or any errant growth that departs from the natural form. When pruning to shape, make your cuts above a bud or side branch that points in the direction you'd like the new growth to take.

## PRUNING CUTS

After you understand how to approach a pruning job, you need to know how to make good pruning cuts. The first lesson is: Never leave a stub. Or to put it another way, always make a cut just above some sort of growth. There is a right way to make pruning cuts and several wrong ways. You want to avoid leaving stubs and you also want to avoid undercutting the bud or branch. Best cuts, place the lowest part of the cut directly opposite and slightly above the upper side of the bud or branch to which you are cutting back. Large limbs are heavy, and if you cut down through one with a single cut, it's likely to split or tear before the cut is finished (possibly splitting farther back than you intended). Cut heavy limbs in three stages. The first cut is under branch; make a second cut to remove the limb, outward from the first cut. Final cut should bisect lower angle branch forms with the tree trunk. (see illustration below)

[GRAPHIC ILLUSTRATION OF THREE STAGES OF PRUNING CUTS]

## SEALER

Most people are aware that a tree has the ability to "grow a new skin" over a wound, but if a major branch is removed, the large cut can give diseases and insects a greater opportunity to get a foothold before the slow natural process has a chance

to take place. When any branch over 1 1/2 inches in diameter is cut, ALWAYS use a water base sealer to paint the wounds. This will hinder any possibility of infection and stop the bore-type insect problems. This step in the pruning method is very time consuming, but very important to the health of the tree.

#### SEASON AND SCHEDULE

For pruning decisions the criteria is for appearance and safety. Remove dead or broken leaves for a neat appearance. For safety reasons, remove any part that may become a hazard by falling.

Damaged or broken branches should be trimmed off below the points of injury. The central "leader" or trunk should be left intact to build a high crown and the side branches shortened by at least one-half of their length.

#### TIMING FOR PRUNING

December or January is the most effective and convenient time to prune.

Prune to thin outgrowth and eliminate from blocking wind with heavy foliage. It can be pruned most any time of the year, although January/February is the best time to prune before mid-winter/spring winds occur.

#### FERTILIZATION

Note: We recommend fertilizing the trees in the complex with a "root feeder" and supplemental iron feedings. With this feeding system, you accomplish two functions: (1) fertilizing and (2) deep watering. This exercise should be performed in June, and if no rain by December, a light feeding should be applied. A feeding of nitrogen once a year, injected into the root zone would be a proper application for growth response. The best and easiest method would be the root feeder system using the NITROGEN tab insert. With this injection system, the deep watering will also be beneficial to the lower root zone. This application should take place about one month before the hottest time of the year.

[LOGO - RICHARD PRICE & ASSOCIATES LANDSCAPE ARCHITECTS/PLANNERS]

[LINE DRAWING DEPICTING TRISTANIA OR EUCALYPTUS TREE AND ITS DIMENSIONS]

PRUNING INSTRUCTION FOR: TRISTANIA OR EUCALYPTUS

-----  
DO NOT TOP TREE

---  
DO NOT SHEAR EDGES OF TREE

---  
- - PRUNE LATERAL GROWTH (ANNUALLY) BY SELECTIVELY REMOVING BRANCHES TO OPEN INTERIOR SO WIND WON'T BE A PROBLEM.

- - PRUNE UP LOWER GROWTH TO 1/4 OF OVERALL TREE HEIGHT. (6 TO 7 FEET MAX.)

NOTE: TREES WHICH HAVE ALREADY BEEN INCORRECTLY PRUNED BY REMOVING LOWER BRANCHES TO A HEIGHT GREATER THAN 7 FEET ABOVE THE GROUND, SHALL BE REMOVED AND REPLACED W/NEW 16 GALLON SIZE TREES. (TRISTANIAS ONLY)



[LOGO - RICHARD PRICE & ASSOCIATES LANDSCAPE ARCHITECTS/PLANNERS]

[LINE DRAWING DEPICTING CUPANIA TREE AND ITS DIMENSIONS]

PRUNING INSTRUCTION FOR: CUPANIA (CARROTWOOD)

-----  
DO NOT TOP TREE

---  
DO NOT SHEAR OUTSIDE OF TREE INTO BALL FORM

---  
- - PRUNE SELECTIVELY REMOVING LATERAL BRANCHES TO OPEN UP INTERIOR OF TREE  
AND ENHANCE THE NATURAL STRUCTURE OF THE TREE

-----  
- - PRUNE UP LOWER BRANCHES TO ALLOW FOR VEHICULAR & PEDESTRIAN TRAFFIC

[LOGO - RICHARD PRICE & ASSOCIATES LANDSCAPE ARCHITECTS/PLANNERS]

[LINE DRAWING DEPICTING LIQUIDAMBAR TREE AND ITS DIMENSIONS]

PRUNING INSTRUCTION FOR: LIQUIDAMBAR TREE

-----  
DO NOT TOP THIS TREE

---  
CENTRAL LEADER (MAIN TRUNK) OF TREE MUST REMAIN INTACT IN ORDER FOR TREE TO DEVELOP INTO ITS NATURAL FORM.

DO NOT TRIM OR 'HEAD BACK' LATERAL GROWTH

-----  
PRUNING INSTRUCTIONS:

- - THIN OUT TREE ANNUALLY BY SELECTIVELY REMOVING 10-15% OF LATERAL BRANCHES, ALL THE WAY BACK TO TRUNK OF TREE.
- - PRUNE UP LOWER BRANCHES TO 1/4 OF OVERALL HEIGHT OF TREE (NOT TO EXCEED A HEIGHT OF 6 FEET)

NOTE: SLASH THRU BRANCH SHOWS EXAMPLE OF PROPER LOCATION OF PRUNING CUTS.

-----

[LOGO - RICHARD PRICE & ASSOCIATES LANDSCAPE ARCHITECTS/PLANNERS]

[LINE DRAWING DEPICTING MELALEUCA TREE AND ITS DIMENSIONS]

PRUNING INSTRUCTION FOR: MELALEUCA LEUCADENDRA

-----  
DO NOT TOP TREE

---  
DO NOT SHEAR OUTSIDE OF TREE (KEEP FORM NATURAL)

---  
- - LIGHTLY THIN-OUT TREE BY REMOVING SECONDARY BRANCHES ONLY WHEN FOLIAGE GROWTH BECOMES VERY DENSE

- - PRUNE UP LOWER FOLIAGE TO HEIGHT OF 3-4 FEET FOR MATURING TREES (LESS FOR YOUNGER TREES)

[LOGO - RICHARD PRICE & ASSOCIATES LANDSCAPE ARCHITECTS/PLANNERS]

[LINE DRAWING DEPICTING CORAL TREE AND ITS DIMENSIONS]

PRUNING INSTRUCTION FOR: ERYTHRINA CAFFRA TREE

- - - - -
- - LIGHTLY "HEAD BACK" GROWTH WHERE NEEDED TO SHAPE OVERALL TREE CANOPY
- - OPEN UP INTERIOR OF TREE BY REMOVING APPROXIMATELY 20-25% OF BRANCHES, WHILE
- - - - -
- RETAINING BALANCE TO THE STRUCTURE & ALLOWING WIND TO PASS THRU THE TREE.
- - - - -

ALLOW CLEARANCE UNDER BRANCHES FOR VEHICULAR & PEDESTRIAN TRAFFIC

NOTE: SLASH THRU BRANCH SHOWS EXAMPLE OF PROPER LOCATIONS FOR PRUNING CUTS

NOTE: ALTERNATE PRUNING OF LATERAL GROWTH EVERY (2) YEARS. PRUNE AFTER TREE BLOOMS IN WINTER.

[LOGO - RICHARD PRICE & ASSOCIATES LANDSCAPE ARCHITECTS/PLANNERS]

[LINE DRAWING DEPICTING CANARY ISLAND PINE]

PRUNING INSTRUCTION FOR: PINUS CANARIENSIS

-----  
DO NOT TOP TREE

---  
DO NOT PRUNE BACK LATERAL BRANCHES

---  
THIS TREE REQUIRES VERY MINIMAL PRUNING

-----  
- - LIGHTLY THIN OUT SECONDARY GROWTH ON LATERAL BRANCHES STARTING AT TRUNK AND  
MOVING OUTWARD. DO THIS ONLY WHERE FOLIAGE IS VERY DENSE.

- - PRUNE UP LOWER GROWTH TO 1/4 OF OVERALL HEIGHT. (6 FEET MAX)

[LOGO - RICHARD PRICE & ASSOCIATES LANDSCAPE ARCHITECTS/PLANNERS]

PRUNING INSTRUCTION FOR: SHRUB PLANTINGS

[LINE DRAWING OF SECTION OF INFORMAL HEDGE]

[LINE DRAWING OF ELEVATION OF INFORMAL HEDGE]

INFORMAL HEDGE (SUCH AS: XYLOSMA, ESCALLONIA, RAPHIOLEPIS, PITTOSPORUM)

DO NOT USE HEDGING SHEARS ON INFORMAL SHRUB PLANTINGS

DO NOT SHAPE SHRUBS INTO BALL FORMS

- - TO PRUNE, SELECTIVELY REMOVE INDIVIDUAL BRANCHES W/HAND CLIPPERS TO OPEN UP AND ENHANCE THE NATURAL STRUCTURE OF THE SHRUB.

NOTE: ALLOW GROUND COVER TO FILL IN BELOW SHRUBS

[LINE DRAWING OF SECTION OF FORMAL HEDGE]

[LINE DRAWING OF ELEVATION OF FORMAL HEDGE]

FORMAL HEDGE (SUCH AS: LIGUSTRUM TEXANUM)

- - PRUNE BY SHEARING EDGES OF SHRUBS W/HEDGING SHEARS, INTO "BOX" FORM

NOTE: ALLOW GROUND COVER TO FILL IN BELOW SHRUBS

[LOGO - RICHARD PRICE & ASSOCIATES LANDSCAPE ARCHITECTS/PLANNERS]

[LINE DRAWING DEPICTING SYCAMORE TREE AND ITS DIMENSIONS]

PRUNING INSTRUCTION FOR: PLATANUS (SYCAMORE) TREE

-----  
DO NOT POLLARD TREE (THIS IS WHEN MAJOR BRANCHES ARE PRUNED BACK SEVERELY TO  
---  
SAME POINT EACH TIME, IF THIS HAS ALREADY BEEN DONE, SEE NOTE BELOW)

- - SELECTIVELY "HEAD BACK" BRANCHES THAT PROTRUDE OUTSIDE STRUCTURE OF TREE
- - SELECTIVELY THIN-OUT LATERAL BRANCHES TO OPEN UP INTERIOR OF TREE
- - REMOVE LOWER BRANCHES TO 6-7 FEET ABOVE GROUND
- - REVIEW PRUNING OF TREE (2) TIMES A YEAR. PRUNING TO BE DONE PREDOMINANTLY IN WINTER.

NOTE: FOR TREES WHICH HAVE ALREADY BEEN INCORRECTLY PRUNED BY SEVERELY CUTTING  
- ---- BACK PRIMARY LATERAL BRANCHES, PRUNE OUT 60% OF NEW GROWTH (SEE EXAMPLE)

[LINE DRAWING DEPICTING EXAMPLE OF INCORRECTLY PRUNED LATERAL BRANCH]

EXHIBIT "G"

PAINTING SPECIFICATIONS

[To be provided by Landlord]



ARCHITECT'S CERTIFICATE

Re: Alterations Completed On \_\_\_\_\_ [Date]  
[Name of Tenant and Address of Premises]

Gentlemen:

We hereby declare based upon our professional opinion, that, to the best of our knowledge, information and belief, the above referenced project is in substantial compliance with the construction documents and applicable building codes.

Very truly yours,

[Name and Address of  
Architect]

By: \_\_\_\_\_

Title: \_\_\_\_\_



## Exhibit 11.1

UNIVERSAL ELECTRONICS INC.  
COMPUTATION OF PER SHARE EARNINGS

	THREE MONTHS ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,	
	1996	1995	1996	1995
Common stock outstanding, beginning of period	6,750,898	6,741,578	6,750,898	6,741,578
Weighted average common stock outstanding from:				
Common stock issued for employee retirement plan	9,961	-	5,100	-
Common stock issued upon exercise of stock options	23,391	9,059	17,724	2,587
Common stock resulting from purchase of Treasury stock	(415,000)	-	(112,437)	
Weighted average common stock outstanding	6,369,250	6,821,337	6,661,285	6,744,731
Weighted average common stock equivalents:				
Stock options	-	70,700	-	33,566
Weighted average common stock and common stock equivalents outstanding	6,369,250	6,821,337	6,661,285	6,777,731
Net income (loss) attributable to common stockholders	\$(2,084,434)	\$1,334,384	\$(2,294,747)	\$ 319,527
Net income (loss) per common stock and common stock equivalents	\$ (0.33)	\$ 0.20	\$ (0.	\$ 0 .05

UNIVERSAL ELECTRONICS INC.  
LIST OF SUBSIDIARIES OF THE REGISTRANT

One For All B.V. (organized under the laws of The Netherlands)

One For All GmbH (organized under the laws of Germany)

One For All (UK) Ltd. (organized under the laws of the United Kingdom)

## CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 No. 33-66426 filed on or about July 23, 1993, No. 333-09021 filed on July 26, 1996, and No. 333-23985 filed on March 26, 1997 of Universal Electronics Inc. of our report dated January 23, 1997, appearing on page 18 of this Annual Report on Form 10-K.

PRICE WATERHOUSE LLP

Cleveland, Ohio  
March 26, 1997

YEAR

DEC-31-1996		
JAN-01-1996		
DEC-31-1996		510
	0	
	20,522	
	(359)	
	21,208	
	47,155	
		10,305
	(3,608)	
	59,451	
10,640		
		3,183
		68
0		
	0	
	45,559	
59,451		
		98,589
	98,589	
		74,055
	28,631	
	0	
	(42)	
	768	
	(4,587)	
	2,292	
(2,295)		
	0	
	0	
		0
	(2,295)	
	(.34)	
	0	