

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

FORM 10-Q

(mark one)

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

For the Quarterly Period ended June 30, 2002

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

For the transition period from _____ to _____

Commission File Number: 0-21044

UNIVERSAL ELECTRONICS INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

33-0204817
(I.R.S. Employer
Identification No.)

6101 Gateway Drive
Cypress, California
(Address of principal executive offices)

90630
(Zip Code)

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

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date — 14,032,610 shares of Common Stock, par value \$.01 per share, of the Registrant were outstanding at June 30, 2002.

UNIVERSAL ELECTRONICS INC.

INDEX

	Page
PART I.	FINANCIAL INFORMATION
Item 1.	Consolidated Financial Statements
	Consolidated Balance Sheets
	Consolidated Income Statements
	Consolidated Statements of Cash Flows
	Notes to Consolidated Financial Statements
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
Item 3.	Quantitative and Qualitative Disclosures about Market Risk
PART II.	OTHER INFORMATION
Item 6.	Exhibits and Reports on Form 8-K
Signature	

TABLE OF CONTENTS

Item 1. Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED INCOME STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

SIGNATURE

EXHIBIT 10.49

EXHIBIT 10.50

EXHIBIT 99.1

EXHIBIT 99.2

Item 1. Consolidated Financial Statements

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

	June 30, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 36,987	\$ 34,270
Accounts receivable, net	23,122	28,209
Inventories	18,645	16,700
Prepaid expenses and other current assets	1,405	829
Deferred income taxes	1,925	1,925
Income tax receivable	871	387
	<hr/>	<hr/>
Total current assets	82,955	82,320
Equipment, furniture and fixtures, net	3,712	3,828
Goodwill, net	2,961	2,961
Intangible assets, net	4,163	3,133
Other assets	747	713
Deferred income taxes	1,750	1,750
	<hr/>	<hr/>
Total assets	\$ 96,288	\$ 94,705
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 8,851	\$ 9,383
Accrued income taxes	134	842
Accrued compensation	1,000	861
Other accrued expenses	3,343	3,812
	<hr/>	<hr/>
Total current liabilities	13,328	14,898
Notes payable	75	104
	<hr/>	<hr/>
Total liabilities	13,403	15,002
	<hr/>	<hr/>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, 5,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$.01 par value, 50,000,000 shares authorized; 15,971,910 and 15,729,928 shares issued at June 30, 2002 and December 31, 2001, respectively	160	157
Paid-in capital	70,021	68,657
Accumulated other comprehensive loss	(2,161)	(1,804)
Retained earnings	26,051	23,973
Deferred stock-based compensation	(189)	(308)
Common stock in treasury, 1,939,300 and 1,943,304 shares at June 30, 2002 and December 31, 2001, respectively	(10,997)	(10,972)
	<hr/>	<hr/>
Total stockholders' equity	82,885	79,703
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 96,288	\$ 94,705
	<hr/>	<hr/>

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net sales	\$24,590	\$29,107	\$48,001	\$60,130
Cost of sales	13,733	16,974	27,728	34,687
Gross profit	10,857	12,133	20,273	25,443
Selling, general and administrative expenses	9,046	8,438	17,571	17,745
Operating income	1,811	3,695	2,702	7,698
Interest income, net	(155)	(334)	(272)	(608)
Other expense (income), net	(192)	168	(223)	210
Income before income taxes	2,158	3,861	3,197	8,096
Provision for income taxes	755	1,544	1,119	3,238
Net income	\$ 1,403	\$ 2,317	\$ 2,078	\$ 4,858
Net income per share:				
Basic	\$ 0.10	\$ 0.17	\$ 0.15	\$ 0.35
Diluted	\$ 0.10	\$ 0.16	\$ 0.14	\$ 0.33
Weighted average common stock outstanding:				
Basic	13,959	13,926	13,879	13,872
Diluted	14,515	14,705	14,443	14,646

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

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

	Six Months Ended June 30,	
	2002	2001
Cash provided by operating activities:		
Net income	\$ 2,078	\$ 4,858
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,799	2,108
Other		
Changes in operating assets and liabilities:	224	249
Accounts receivable	6,563	9,059
Inventory	(1,946)	(2,117)
Prepaid expenses and other assets	(990)	(231)
Accounts payable and accrued expenses	(734)	(5,643)
Accrued income and other taxes	(1,092)	(1,361)
Net cash provided by operating activities	<u>5,902</u>	<u>6,922</u>
Cash used for investing activities:		
Acquisition of fixed assets	(1,264)	(1,708)
Payments for businesses acquired	(793)	(66)
Acquisition of intangible assets	(745)	(52)
Net cash used for investing activities	<u>(2,802)</u>	<u>(1,826)</u>
Cash provided by financing activities:		
Proceeds from stock options exercised	1,245	1,224
Payments on note payable	(39)	(25)
Net cash provided by financing activities	<u>1,206</u>	<u>1,199</u>
Effect of exchange rate changes on cash	<u>(1,589)</u>	<u>673</u>
Net increase in cash and cash equivalents	2,717	6,968
Cash and cash equivalents at beginning of period	34,270	20,809
Cash and cash equivalents at end of period	<u>\$36,987</u>	<u>\$27,777</u>

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

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

Adjustments

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries after elimination of all material intercompany accounts and transactions. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's 2001 Form 10-K. The financial information presented in the accompanying statements reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of the periods indicated. All such adjustments are of a normal recurring nature.

Inventories

Inventories consist of the following (in thousands):

	June 30, 2002	December 31, 2001
Components	\$ 7,580	\$ 8,526
Finished goods	11,065	8,174
Total inventories	\$18,645	\$16,700

Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding and dilutive potential common shares, which includes the dilutive effect of stock options and restricted stock grants. Dilutive potential common shares for all periods presented are computed utilizing the treasury stock method. In the computation of diluted earnings per common share for the six-month period ended June 30, 2002, approximately 609,000 stock options with exercise prices greater than the average market price of the underlying common stock were excluded because their inclusion would have been antidilutive.

[Table of Contents](#)

Earnings per share for the three and six months ended June 30, 2002 and 2001 are calculated as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
(in 000's, except per share data)				
BASIC				
Net Income	\$ 1,403	\$ 2,317	\$ 2,078	\$ 4,858
Weighted-average common shares outstanding	13,959	13,926	13,879	13,872
Basic earnings per share	\$ 0.10	\$ 0.17	\$ 0.15	\$ 0.35
DILUTED				
Net Income	\$ 1,403	\$ 2,317	\$ 2,078	\$ 4,858
Weighted-average common shares outstanding for basic	13,959	13,926	13,879	13,872
Dilutive effect of stock options and restricted stock	556	779	564	774
Weighted-average common shares outstanding on a diluted basis	14,515	14,705	14,443	14,646
Diluted earnings per share	\$ 0.10	\$ 0.16	\$ 0.14	\$ 0.33

Comprehensive Income (Loss)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
(in thousands)				
Net Income	\$1,403	\$2,317	\$2,078	\$4,858
Other comprehensive income (loss):				
Foreign currency translations	463	(142)	(357)	(321)
Comprehensive income (loss):	\$1,866	\$2,175	\$1,721	\$4,537

New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141, “Business Combinations” and SFAS No. 142, “Goodwill and Intangible Assets.” SFAS No. 141 requires that the purchase method of accounting be used for all business combinations, establishes specific criteria for recognizing intangible assets separately from goodwill and requires certain disclosures regarding reasons for a business combination and the allocation of the purchase price paid. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. SFAS No. 142 establishes that goodwill and certain intangible assets will no longer be amortized to earnings, but instead tested for impairment at least annually. The Company adopted the provisions of SFAS No. 141 and SFAS No. 142 on January 1, 2002.

In accordance with SFAS No. 142, the Company prospectively ceased amortization on approximately \$3.0 million of net unamortized goodwill (consisting of a gross cost of \$4.6 million and associated accumulated amortization of \$1.6 million) beginning January 1, 2002. The Company recorded approximately \$565,000 of annual amortization during 2001 and would have recorded approximately \$307,000 of amortization during the first six months of 2002. In lieu of amortization, the Company is required to perform an initial impairment review of goodwill in 2002 and an annual impairment review thereafter. Based on the Company’s impairment testing following the adoption of these pronouncements, no impairment was recognized.

The Company operates in a single industry segment. The Company separately monitors the financial performance of its domestic and international operations. Further, each of these operations generally serves a distinct customer base. Based upon these facts, the Company considers the domestic and international operations its reporting units for the assignment of goodwill. Goodwill for the domestic operations was generated from the acquisition of a remote control company in 1998. Goodwill for international operations resulted from the acquisition of remote control distributors in UK in 1998, Spain in 1999 and France in 2000.

Goodwill information for each reporting unit is as follows (in thousands):

	June 30, 2002
United States	\$1,191
All Other Countries	1,770
	<hr/>
Total Goodwill	\$2,961
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[Table of Contents](#)

The following table shows, on a pro-forma basis, what net income and earnings per share would have been for the three and six months ended June 30, 2001 if the new accounting standards had been applied beginning January 1, 2001 (in thousands):

	Three Months Ended	Six Months Ended
	June 30, 2001	
Net income, as reported	\$2,317	\$4,858
Add back: goodwill amortization, net of tax effect	107	197
Pro-forma net income	\$2,424	\$5,055
Basic earnings per share, as reported	\$ 0.17	\$ 0.35
Add back: goodwill amortization, net of tax effect	0.00	0.01
Pro-forma basic earnings per share	\$ 0.17	\$ 0.36
Diluted earnings per share, as reported	\$ 0.16	\$ 0.33
Add back: goodwill amortization, net of tax effect	0.00	0.02
Pro-forma diluted earnings per share	\$ 0.16	\$ 0.35

Information regarding the Company's other intangible assets is as follows (in thousands):

	June 30, 2002	December 31, 2001
Carrying amount:		
Distribution rights	\$2,597	\$2,597
Patents	2,407	2,056
Trademark	552	389
Technology	1,229	183
Other	976	1,066
Total carrying amount	\$7,761	\$6,291
Accumulated amortization:		
Distribution rights	\$1,919	\$1,705
Patents	828	714
Trademark	196	43
Technology	46	—
Other	609	696
Total accumulated amortization	\$3,598	\$3,158
Net carrying amount:		
Distribution rights	\$ 678	\$ 892
Patents	1,579	1,342
Trademark	356	346
Technology	1,183	183
Other	367	370
Total net carrying amount:	\$4,163	\$3,133

Table of Contents

Amortization expense for the three and six months ended June 30, 2002 was approximately \$0.2 million and \$0.4 million, respectively. Amortization expense for the three and six months ended June 30, 2001 was approximately \$0.4 million and \$0.7 million, respectively. Estimated amortization expense for existing intangible assets for each of the five succeeding years ended December 31 will be as follows (in thousands):

2002 (remaining 6 months)	\$ 590
2003	1,141
2004	757
2005	722
2006	722

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. The statement replaces EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not believe that the adoption of SFAS No. 146 will have an impact on its consolidated financial position or results of operations.

[Table of Contents](#)

Accounting Policy for Derivatives

The Company enters into foreign currency option-based arrangements with contract terms normally lasting less than six months to protect against the adverse effects that exchange-rate fluctuations may have on foreign-currency-denominated trade receivables. These derivatives do not qualify for hedge accounting in accordance with SFAS 133 because they relate to existing assets denominated in a foreign currency. The gains and losses on both the derivatives and the foreign-currency-denominated trade receivables are recorded as transaction adjustments in current earnings.

The Company's currency exposures are primarily concentrated in the Euro and British Pound Sterling, and to a lesser extent, certain other international currencies. The Company had no foreign exchange contracts at June 30, 2002. The Company does not enter into financial instruments for speculation or trading purposes. These financial exposures are monitored and managed by the Company as an integral part of our overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effect on our results.

Business Segments and Foreign Operations

The Company operates in a single industry segment and is engaged in the development and marketing of pre-programmed wireless control devices and related products principally for video and audio entertainment equipment. The Company's customers consist primarily of international retailers, private label customers, original equipment manufacturers and subscription broadcasting operators.

The Company's operations and identifiable assets by geographic area in thousands are presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net Sales				
United States	\$16,759	\$21,035	\$32,681	\$44,457
Netherlands	3,004	2,762	5,763	5,172
United Kingdom	1,370	2,033	2,813	3,382
France	775	1,208	1,764	2,375
Germany	701	488	1,485	1,423
All Other	1,981	1,581	3,495	3,321
Total Net Sales	\$24,590	\$29,107	\$48,001	\$60,130
			June 30, 2002	December 31, 2001
Identifiable Assets				
United States			\$ 7,131	\$ 6,510
All Other Countries			4,452	4,125
Total Identifiable Assets			\$11,583	\$10,635

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

Reclassifications

Certain prior period amounts have been reclassified to conform to the current presentation.

Commitments and Contingent Liabilities

The Company is a party to 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.

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

Results of Operations

Second Quarter 2002 versus 2001

Net sales for the 2002 second quarter were \$24.6 million compared to \$29.1 million for the same quarter last year. Net sales of the Company's technology products (subscription broadcasting, OEM and private label) were approximately 79.2% of net sales for the second quarter of 2002 compared to 80.2% for the second quarter of 2001. Net sales from the retail portion (*One For All*® international and direct import) accounted for approximately 20.8% of total second quarter 2002 net sales compared to 19.8% for the corresponding period in 2001.

Net sales of the Company's technology products for the second quarter of 2002 decreased by 16.3% to \$19.5 million from \$23.3 million for the same period last year. The decrease in technology sales was principally due to reduced orders from cable service providers, cable-related OEM customers and OEM customers in North America and Asia.

The Company's net sales for the 2002 second quarter from its retail customers were \$5.1 million, a decrease of 12.1% from net sales of \$5.8 million for the same quarter last year. The decrease in retail sales was attributable to a decrease of \$240,000 in direct import revenues from \$482,000 in the second quarter of 2001 to \$242,000 in second quarter of 2002. One For All international revenues also decreased from \$5.3 million for the second quarter of 2001 to \$4.9 million for the same period in 2002 primarily due to decreased sales volume to customers in the UK.

The Company's overall gross profit margin for the second quarter of 2002 was 44.2% compared to a gross margin of 41.7% for the same period last year. The higher gross margin during the quarter was a result of a higher margin product mix across all lines coupled with the positive effect on sales of the strengthening Euro and Pound against the dollar.

Selling, general and administrative expenses increased 7.2% from \$8.4 million in the second quarter of 2001 to \$9.0 million for the same period in 2002. The increase was primarily attributable to increased professional fees for tax planning projects, increased bad debt expenses and an unfavorable currency exchange effect on the payment of expenses in stronger Euros and Pounds. The Company ceased goodwill amortization of approximately \$154,000 for the quarter ended June 30, 2002 in accordance with SFAS No. 142, partially offsetting the increased selling, general and administrative expenses.

In the second quarter of 2002, the Company recorded \$155,000 of interest income compared to \$334,000 for the same period last year. This \$179,000 decrease is primarily due to lower interest rates earned on cash balances in 2002.

The Company recorded income tax expense of \$0.8 million for the second quarter of 2002 compared to approximately \$1.5 million for the same period last year. The decrease was due to lower pretax income in 2002 and a reduction of our effective tax rate resulting from the use of certain identified research and development credits. Our effective tax rate has been reduced from 40% in the second quarter of 2001 to 35% during the same period in 2002.

[Table of Contents](#)

Six Months 2002 versus 2001

Net sales for the six months ended June 30, 2002 were \$48.0 million, a decrease of 20.2% over the net sales of \$60.1 million for the same period last year. Net income for the first six months of 2002 was \$2.1 million or \$0.15 per share (basic) and \$0.14 per share (diluted), compared to \$4.9 million or \$0.35 per share (basic) and \$0.33 per share (diluted) for the same period last year.

Net sales in the Company's technology lines (subscription broadcasting, OEM and private label) for the first six months of 2002 decreased 21.8% to \$38.0 million from \$48.6 million for the same period last year. The decrease in technology sales was principally due to reduced orders from cable service providers and cable-related OEM customers.

Net sales from the Company's retail lines (*One For All*® international, Eversafe and direct import) for the first six months of 2002 decreased 13.3% to \$10.0 million from \$11.5 million for the same period last year primarily due to decreased sales volume to customers in Argentina and the UK.

Gross margins for the first six months of 2002 were 42.2% compared to 42.3% for the same period last year.

Selling, general and administrative expenses decreased to \$17.6 million in the first six months of 2002, compared to \$17.7 million in the first six months of 2001. The decrease was attributable to ceased goodwill amortization in accordance with SFAS No. 142, resulting in a decrease in expense of approximately \$307,000.

Interest income decreased by \$336,000 to \$272,000 for the first six months of 2002 from \$608,000 for the same period in 2001 due to lower interest rates earned on cash balances in 2002.

The Company recorded income tax expense of \$1.1 million for the first six months of 2002 compared to approximately \$3.2 million for the same period of 2001. The decrease was due to lower pretax income in 2002 and a reduction of our effective tax rate resulting from the use of certain identified research and development credits. Our effective tax rate has been reduced from 40% for the first six months of 2001 to 35% during the same period in 2002.

Liquidity and Capital Resources

Universal's principal sources of funds are our operations and bank credit facilities. Cash provided by operating activities for the six months ended June 30, 2002 was \$5.9 million as compared to \$6.9 million in the corresponding period in 2001. The decrease in cash flow is primarily due to lower sales in 2002 offset by lower cost of goods sold due to lower sales in 2002.

On April 1, 2002, we entered into a \$15 million unsecured revolving credit agreement (the "Agreement") with Bank of America National Trust and Savings Association ("B of A"). Under the Agreement with B of A, we can choose from several interest rate options at our discretion. The interest rate in effect as of June 30, 2002 using the IBOR Rate option plus a fixed margin of 1.25%, was 3.08%. We pay a commitment fee at a maximum rate of 1/8 of 1% per year on the unused portion of the credit line. Under the terms of this Agreement, our ability to pay cash dividends on our common stock is restricted and we are subject to certain financial covenants and other restrictions that are standard for these types of agreements. However, we have authority under this credit facility to acquire up to 1,000,000 shares of our common stock in market purchases. No Company shares have been purchased since the date of this Agreement through June 30, 2002. Amounts available for borrowing under this credit facility are reduced by the outstanding balance of our import letters of credit. As of June 30, 2002, we had no amounts outstanding under this credit facility.

There were no open market purchases of our common stock in the second quarter of 2002. We hold shares purchased on the open market as treasury stock and they are available for reissue by the Company. Presently, except for using a small number of these treasury shares to compensate our outside board members, we have no plans to distribute these shares, although we may change these plans if necessary to fulfill our on-going business objectives. In addition, during the six months ended June 30, 2002, the Company received proceeds of approximately \$1,245,000 from the exercise of stock options granted to the Company's current and former employees, as compared to approximately \$1,224,000 during the same period in 2001.

Capital expenditures in the first six months of 2002 and 2001 were approximately \$1,264,000 and \$1,708,000, respectively. These expenditures related primarily to the acquisition of product tooling.

During the second quarter of 2002, we completed an acquisition of multimedia protocol technologies that enable custom wireless control solutions for home entertainment hardware and software applications, from a software development company for \$780,000, \$705,000 of which was paid in the second quarter 2002.

During the third quarter of 2000, we completed our acquisition of a remote control distributor in France for approximately \$1.8 million, of which \$1.5 million was paid during 2000, \$143,000 was paid during 2001, \$88,000 was paid in the first six months of 2002 and \$65,000 will be paid during the remainder of 2002.

RISK FACTORS

Forward Looking Statements

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

While we believe that the forward looking statements made in this report are based on reasonable assumptions, the actual outcome of such statements is subject to a number of risks and uncertainties, including the failure of our markets to continue growing and expanding in the manner we anticipated; the failure of our customers to grow and expand as we anticipated; the effects of natural or other events beyond our control; the effect of the economic environment in various geographical regions of the world on us and our customers; the growth of, acceptance of and the demand for our products and technologies in various markets and geographical regions, including cable, satellite, consumer electronics, retail and interactive TV, and home automation, not materializing as we believed; our inability to add profitable complementary products which are accepted by the marketplace; our inability to continue to maintain our operating costs at acceptable levels through our cost containment efforts; our realization of tax benefits from various tax projects initiated from time to time, the continued strength of our balance sheet, our inability to continue selling our products or licensing our technologies at higher or profitable margins throughout 2002 and beyond; the failure of the various markets and industries to grow or emerge as rapidly or as successfully as we believed; the continued growth of the digital market; our inability to obtain orders or maintain our order volume with new and existing customers; the possible dilutive effect our stock option program may have on our earnings per share and stock price; our inability to continue to obtain adequate quantities of component parts or secure adequate factory production capacity on a timely basis; and other factors listed from time to time in our press releases and filings with the Securities and Exchange Commission.

Dependence Upon Key Suppliers

Most of the components used in our products are available from multiple sources; however, we have elected to purchase integrated circuit components used in our products from two main sources, each of which provides in excess of ten percent (10%) of the Company’s microprocessors for use in our products. While we have developed alternative sources of supply for these integrated circuit components, there can be no assurance that we will be able to continue to obtain these components on a timely basis. We generally maintain inventories of our integrated chips, which could be used in part to mitigate, but not eliminate, delays resulting from supply interruptions. An extended interruption, shortage or termination in the supply of any of the components used in our products, a reduction in their quality or reliability, or a significant increase in the price of components, would have an adverse effect on our financial condition, results of operations and cash flows.

Table of Contents

Dependence on Foreign Manufacturing

Third-party manufacturers located in foreign countries manufacture a majority of our products. Our arrangements with our foreign manufacturers are subject to the risks of doing business abroad, such as import duties, trade restrictions, work stoppages, political instability and other factors, which could have a material adverse effect on our business, results of operations and cash flows. We believe that the loss of any one or more of our manufacturers would not have a long-term material adverse effect on our business, results of operations and cash flows because numerous other manufacturers are available to fulfill our requirements; however, the loss of any of our major manufacturers could adversely affect our financial condition, result of operations and cash flows until alternative manufacturing arrangements are secured.

Potential Fluctuations in Quarterly Results

Our quarterly financial results may vary significantly depending primarily upon factors such as the timing of significant orders, the timing of our new product offerings and those of our competitors, product presentations and the loss or acquisition of any significant customers. Historically, our business has been influenced by the retail sales cycle, with increased sales in the last half of the year and the largest proportion of sales occurring in the last quarter. However, as sales of our subscription broadcasting and OEM products outpace growth in sales of our retail products, our retail seasonality could have a lesser effect on our overall revenue. Factors such as quarterly variations in financial results could adversely affect the market price of our common stock and cause it to fluctuate substantially. In addition, we may (i) increase our operating expenses to fund greater levels of research and development, increase our sales and marketing activities, develop new distribution channels, improve our operational and financial systems and broaden our customer support capabilities and (ii) incur significant operating expenses associated with any new acquisitions. To the extent that such expenses precede or are not subsequently followed by increased revenues, our financial condition, results of operations and cash flows will be materially adversely affected.

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

Due to all of the foregoing factors, it is likely that in some future quarters, our operating results will be below the expectations of public market analysts and investors. In such event, the price of our common stock would likely be materially adversely effected.

Dependence on Consumer Preference

We are susceptible to fluctuations in our business based upon consumer demand for our products. We believe that our success depends in substantial part on our ability to anticipate, gauge and respond to such fluctuations in consumer demand. However, it is impossible to predict with complete accuracy the occurrence and effect of any such event that will cause such fluctuations in consumer demand for our products. Moreover, we caution that any increases in sales or growth in revenue that we achieve may be transitory and should by no means be construed to mean that such increases or growth will continue.

[Table of Contents](#)

Dependence Upon Timely Product Introduction

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

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

Dependence on Major Customers

The economic strength and weakness of our worldwide customers affect our performance. We sell our wireless control products and proprietary technologies to private label customers, original equipment manufacturers, and companies involved in the subscription broadcasting industry. We also supply our products to our wholly owned, non-U.S. subsidiaries and to independent foreign distributors, who in turn distribute our products worldwide, with Europe, Australia, New Zealand, Mexico and selected countries in Asia and Latin America currently representing our principal foreign markets. Although there were no customers that acquired more than ten percent of the our products during the first six months of 2002, the future loss of any key customer either in the United States or abroad due to the financial weakness or bankruptcy of any such customer or our inability to obtain orders or maintain our order volume with our major customers may have an adverse effect on our financial condition, results of operations and cash flows.

Competition

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

[Table of Contents](#)

Potential for Litigation

As is typical in our industry and the nature and kind of business in which we are engaged, from time to time, various claims, charges and litigation are asserted or commenced by third parties against us or by us against third parties, arising from or related to product liability, infringement of patent or other intellectual property rights, breach of warranty, contractual relations, or employee relations. The amounts claimed may be substantial but may not bear any reasonable relationship to the merits of the claims or the extent of any real risk of court awards. In the fourth quarter of 2000, we filed lawsuits against four separate companies claiming that each of the four companies is infringing certain of our patents, three of which have settled with the third party agreeing to license certain of our technology for a royalty. In the final action, we are seeking money damages and injunctive relief. While it is the opinion of management that our products do not infringe any third party's patent or other intellectual property rights, the costs associated with defending or pursuing any such claims or litigation could be substantial and amounts awarded as final judgments, if any, in any such potential or pending litigation, could have a significant and material adverse effect on our financial condition, results of operations and cash flows.

Effects on Universal Due to International Operations

The risks of doing business in developing countries and economically volatile areas could adversely affect our operations, earnings and cash flows. Our expansion of sales into economically volatile areas, such as Asia-Pacific, Latin America and other emerging markets, subject us to a number of economic and other risks. Such risks include financial instability among customers in these regions, the volatility of economic conditions in countries dependent on exports from the United States and European markets, and political instability and potential conflicts among developing nations. We generally have experienced longer accounts receivable cycles in some established European markets as well as emerging international markets, in particular Latin America, when compared with the United States. We are also subject to any political and financial instability in the countries in which we operate, including inflation, recession, trade protection measures, local labor conditions, and unexpected changes in regulatory requirements, currency devaluation and interest rate fluctuations.

In 2000, we established a wholly owned subsidiary, *One For All Argentina S.R.L.*, in Argentina for the support of our retail sales activities in Latin America, specifically in Argentina and Brazil. Net sales during 2001 were approximately \$1.2 million. In early 2002, the United States dollar was eliminated as Argentina's monetary benchmark, resulting in significant currency devaluation. As the functional currency in Argentina is the Argentinean peso and we anticipate that funds generated from collection of sales in Argentina will be maintained in Argentina, we do not anticipate that the elimination of the U.S. dollar as a monetary benchmark will result in a material adverse effect on our business. However, there can be no guarantee that economic circumstances in Argentina or elsewhere will not worsen, which could result in future effects on earnings should such events occur. Our failure to successfully manage economic, political and other risks relating to doing business in developing countries and economically and politically volatile areas could adversely affect our business.

[Table of Contents](#)

General Economic Conditions

General economic conditions, both domestic and foreign, have an impact on our business and financial results. Continued weak global economic conditions could adversely impact our revenues and growth rate. During the year ended December 31, 2001, the information technology market weakened, first in the United States, then in Europe and Asia. This has continued throughout the first six months of 2002. Continued softness in these markets, particularly in the consumer and telecommunications sector, and purchasers' uncertainty about the extent of a global economic downturn could result in lower demand for our products. While worsening economic conditions have had a slightly negative impact on revenues to date, revenues, gross margins and earnings could deteriorate significantly or our growth rate could be adversely impacted in the future as a result of economic conditions.

The terrorist attacks that took place in the United States on September 11, 2001 were unprecedented events that have created many economic and political uncertainties. The potential for future terrorist attacks, the national and international responses to terrorist attacks, and other acts of war or hostility have created many economic and political uncertainties, which could adversely affect our business, financial position, results of operations and cash flows in the short or long-term in ways that cannot presently be predicted.

By operating our business in countries outside the United States, we are exposed to fluctuations in foreign currency exchange rates and exchange ratios, nationalization or expropriation of assets, import/export controls, political instability, variations in the protection of intellectual property rights, limitations on foreign investments and restrictions on the ability to convert currency. These risks are inherent in conducting operations in geographically distant locations, with customers speaking different languages and having different cultural approaches to the conduct of business, any one of which alone or collectively, may have an adverse effect on our international operations, and consequently on our financial condition, results of operations and cash flows. While we will continue to work toward minimizing any adverse effects of conducting our business abroad, no assurance can be made that we will be successful in doing so.

OUTLOOK

Throughout 2002 our focus has been and will continue to be, the enhancement of our leadership position by developing custom products for our subscription broadcasting and OEM customers, growing our library capture expertise in existing infrared technology and emerging radio frequency standards, adding to our portfolio of patented or patent pending technologies, and developing new platform products.

We will also continue to invest in our database of device codes by analyzing third party products for inclusion into our library as we keep our commitment to maintaining a worldwide infrared code library. In addition to our device code database, we will continue to invest in novel intellectual property to fortify our position in the market.

We will seek ways to increase our customer base worldwide, particularly in the areas of subscription broadcasting, OEM, and *One For All* international retail. We will continue to work on building stronger existing customer relationships by working with customers through joint surveys and product trials that will enable us to understand their needs. We intend to invest in new products and technology to meet our customer needs now and into the future.

We will also continue in 2002 to attempt to control our overall cost of doing business. We believe that through product design changes and our purchasing efforts, improvements in our gross margins and efficiencies in our selling, general and administrative expenses can be accomplished, although there can be no assurance that there will be any such improvements or savings and if accomplished, that any such improvements or savings will be significant or maintained.

Also during 2002, we will continue to pursue our overall strategy of seeking out ways to operate all aspects of the Company more profitably. This strategy will include looking at acceptable acquisition targets and strategic partnership opportunities. We caution, however, that no assurance can be made that any suitable acquisition target or partnership opportunity will be identified and, if identified, that a transaction can be consummated. Moreover, if consummated, no assurance can be made that any such acquisition or partnership will profitably add to our operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including interest rate and foreign currency exchange rate fluctuations. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks. Under the Agreement with B of A, we can choose from several interest rate options at our discretion. The interest rate in effect as of June 30, 2002 using the IBOR Rate option plus a fixed margin of 1.25%, was 3.08%. At June 30, 2002, we had no borrowings on our credit line. We have wholly owned subsidiaries in The Netherlands, the United Kingdom, Germany, France, Argentina and Spain. Sales from these operations are typically denominated in local currencies including Euros, British Pounds, and Argentine Pesos thereby creating exposures to changes in exchange rates. Changes in the local currencies/U.S. Dollars exchange rate may positively or negatively affect our sales, gross margins and retained earnings. From time to time, we enter into foreign currency exchange agreements to manage our exposure arising from fluctuating exchange rates that affect cash flows. We had no forward exchange contracts outstanding at June 30, 2002. We do not enter into any derivative transactions for speculative purposes. The sensitivity of earnings and cash flows to variability in exchange rates is assessed by applying an approximate range of potential rate fluctuations to our assets, obligations and projected results of operations denominated in foreign currencies. Based on our overall foreign currency rate exposure at June 30, 2002, we believe that movements in foreign currency rates should not materially affect our financial position, although no assurance can be made that any such foreign currency rate movements in the future will not have a material effect. Because of the foregoing factors, as well as other variables that affect our operating results, past financial performance should not be considered a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(A)		Exhibits pursuant to Item 601 of Regulation S-K
	10.49	Form of Universal Electronics Inc. 2002 Stock Incentive Plan (filed herewith)
	10.50	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain directors, officers and other employees used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 2002 Stock Incentive Plan (filed herewith)
	99.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
	99.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
(B)		Reports on Form 8-K
		There were no reports on Form 8-K filed during the quarter ended June 30, 2002.

SIGNATURE

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

(Registrant) Universal Electronics Inc.

Date: August 14, 2002

/s/ *Mark Z. Belzowski*

Mark Z. Belzowski
Vice President, Chief Financial Officer and Treasurer

UNIVERSAL ELECTRONICS INC.
2002 STOCK INCENTIVE PLAN
EFFECTIVE FEBRUARY 5, 2002

TABLE OF CONTENTS

SECTION 1.GENERAL PURPOSE OF PLAN; DEFINITIONS.....A-3

SECTION 2.ADMINISTRATION.....A-4

SECTION 3.NUMBER OF SHARES OF STOCK SUBJECT TO PLAN.....A-5

SECTION 4.ELIGIBILITY.....A-5

SECTION 5.STOCK OPTIONS.....A-6

SECTION 6.STOCK APPRECIATION RIGHTS.....A-8

SECTION 7.RESTRICTED STOCK UNITS AND PERFORMANCE STOCK UNITS.....A-9

SECTION 8.AMENDMENT AND TERMINATION..... A-10

SECTION 9.UNFUNDED STATUS OF PLAN.....A-11

SECTION 10.GENERAL PROVISIONS.....A-11

SECTION 11.EFFECTIVE DATE OF PLAN.....A-12

SECTION 12.TERM OF PLAN.....A-12

UNIVERSAL ELECTRONICS INC.
2002 STOCK INCENTIVE PLAN

SECTION 1. GENERAL PURPOSE OF PLAN; DEFINITIONS.

The name of this Plan is the Universal Electronics Inc. 2002 Stock Incentive Plan (the "Plan"). The purpose of this Plan is to enable the Corporation (as hereinafter defined) and its Subsidiaries (as hereinafter defined) to obtain and retain competent personnel who will contribute to the Corporation's success by their ability, ingenuity and industry and to provide incentives to the participating directors, officers and other employees which are related to increases in stockholder value and will therefore inure to the benefit of all stockholders of the Corporation.

For purposes of this Plan, the following terms shall be defined as set forth below:

- (a) "Award" means any grant under this Plan in the form of Stock Options, Stock Appreciation Rights, Performance Stock Units, Restricted Stock Units or any combination of the foregoing.
- (b) "Board" means the Board of Directors of the Corporation.
- (c) "Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.
- (d) "Committee" means the Compensation Committee or any other committee the Board may subsequently appoint to administer this Plan. The Committee shall be composed entirely of directors who meet the qualifications referred to in Section 2 of this Plan.
- (e) "Corporation" means Universal Electronics Inc., a corporation incorporated under the laws of the State of Delaware (or any successor corporation), including, where applicable, any and all of its subsidiaries or related entities.
- (f) "Disability" means 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, any Subsidiary or any Related Entity for ninety (90) or more days during any period of 120 consecutive days.
- (g) "Eligible Employee" means an employee of the Corporation, any Subsidiary or any Related Entity as described in Section 4 of this Plan.
- (h) "Fair Market Value" means, as of any given date, with respect to any Awards granted hereunder, the mean of the high and low trading price of the Stock on such date as reported on The Nasdaq Stock Market or if the Stock is not then traded on The Nasdaq Stock Market, on such other national securities exchange on which the Stock is admitted to trade or, if none, on the National Association of Securities Dealers Automated Quotation System if the Stock is admitted for quotation thereon; provided, however, that if any such system, exchange or quotation system is closed on any day on which Fair Market Value is to be determined, Fair Market Value shall be determined as of the first day immediately proceeding such day on which such system, exchange or quotation system was open for trading; provided, further, that in all other circumstances, "Fair Market Value" means the value determined by the Committee after obtaining an appraisal by one or more independent appraisers meeting the requirements of regulations issued under Section 170(a)(1) of the Code.
- (i) "Incentive Stock Option" means any Stock Option intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Code.
- (j) "Non-Employee Director" shall have the meaning set forth in Rule 16b-3 ("Rule 16b-3"), as promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act"), or any successor definition adopted by the Securities and Exchange Commission.
- (k) "Nonqualified Stock Option" means any Stock Option that is not an Incentive Stock Option.

- (l) "Optionee" means a Participant granted a Stock Option pursuant to Section 5 of this Plan which remains outstanding.
- (m) "Participant" means any Eligible Employee selected by the Committee, pursuant to the Committee's authority in Section 2 of this Plan, to receive Awards.
- (n) "Performance Stock Unit" means the right to receive one share of Stock as set forth in an Award granted pursuant to Section 7 of this Plan.
- (o) "Related Entity" means any corporation, joint venture or other entity, domestic or foreign, other than a Subsidiary, in which the Corporation owns, directly or indirectly, a substantial equity interest.
- (p) "Restricted Stock Unit" means the right to receive one share of Stock as set forth in an Award granted pursuant to Section 7 of this Plan.
- (q) "Retirement" means (i) retirement from active employment under a retirement plan of the Corporation, any Subsidiary or Related Entity or under an employment contract with any of them or (ii) termination of employment at or after age 55 under circumstances which the Committee, in its sole discretion, deems equivalent to retirement.
- (r) "Stock" means the common stock, par value \$0.01 per share, of the Corporation.
- (s) "Stock Appreciation Right" means the right pursuant to an Award granted under Section 6 of this Plan, (i) in the case of a Related Stock Appreciation Right (as defined in Section 6 of this Plan), to surrender to the Corporation all or a portion of the related Stock Option and receive an amount equal to the excess of the Fair Market Value of one share of Stock as of the date such Stock Option or portion thereof is surrendered over the option price per share specified in such Stock Option, multiplied by the number of shares of Stock in respect of which such Stock Option is being surrendered and (ii) in the case of a Freestanding Stock Appreciation Right (as defined in Section 6 of this Plan), receive an amount equal to the excess of the Fair Market Value of one share of Stock as of the date of exercise over the price per share specified in such Freestanding Stock Appreciation Right, multiplied by the number of shares of Stock in respect of which such Freestanding Stock Appreciation Right is being exercised.
- (t) "Stock Option" means any option to purchase shares of Stock granted pursuant to Section 5 of this Plan.
- (u) "Subsidiary" means any corporation in an unbroken chain of corporations beginning with the Corporation, if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

SECTION 2. ADMINISTRATION.

This Plan shall be administered by the Committee, composed solely of two or more directors who are Non-Employee Directors, who shall be appointed by the Board and who shall serve at the pleasure of the Board. In the event that a Committee has not been appointed or in the Board's sole discretion, this Plan shall be administered by the Board which shall have all of the power and authority of the Committee set forth below. The Committee shall have the power and authority in its sole discretion to grant Awards pursuant to the terms and provisions of this Plan.

In particular, the Committee shall have the full authority, not inconsistent with this Plan:

- (a) to select Participants;
- (b) to determine whether and to what extent Awards are to be granted to Participants hereunder;

- (c) to determine the number of shares of Stock to be covered by each such Award granted hereunder, but in no case shall such number be in the aggregate greater than that allowed under this Plan;
- (d) to approve or ratify transactions by Participants involving acquisitions from the Corporation or dispositions to the Corporation of equity securities of the Corporation made pursuant to the terms of this Plan;
- (e) to determine the terms and conditions of any Award granted hereunder (including, without limitation, (i) the restrictive periods applicable to Restricted Stock Unit Awards and (ii) the performance objectives and periods applicable to Performance Stock Unit Awards);
- (f) to waive compliance by a Participant with any obligation to be performed by such Participant under any Award and to waive any term or condition of any such Award (provided, however, that no such waiver shall detrimentally affect the rights of the Participant without such Participant's consent); and
- (g) to determine the terms and conditions which shall govern all written agreements evidencing the Awards.

The Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing this Plan as it shall, from time to time deem advisable; to interpret the provisions of this Plan and the terms and conditions of any Award issued, expired, terminated, canceled or surrendered under this Plan (and any agreements relating thereto); and to otherwise supervise the administration of this Plan.

All decisions made by the Committee pursuant to the provisions of this Plan and as to the terms and conditions of any Award (and any agreements relating thereto) shall be final and binding on all persons, including the Corporation and any Optionee.

SECTION 3. NUMBER OF SHARES OF STOCK SUBJECT TO PLAN.

One million (1,000,000) shares of Stock are reserved and available for issuance under this Plan. Such shares may consist, in whole or in part, of authorized and unissued shares or issued shares reacquired by the Corporation from time to time, as the Board may determine.

To the extent that (a) a Stock Option expires or is otherwise terminated, canceled or surrendered without being exercised (including, without limitation, in connection with the grant of a replacement option) or (b) any Restricted Stock Unit Award or Performance Stock Unit Award granted hereunder expires or is otherwise terminated or is canceled, the shares of Stock underlying such Stock Option or subject to such Restricted Stock Unit Award or Performance Stock Unit Award shall again be available for issuance in connection with future Awards under this Plan. Upon the exercise of a Related Stock Appreciation Right, the Stock Option, or the part thereof to which such Related Stock Appreciation Right is related, shall be deemed to have been exercised for the purpose of the limitation on the number of shares of Stock in respect of which the Related Stock Appreciation Right was exercised.

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, spin-off, or other change in corporate structure or capitalization affecting the Stock, the Committee shall make an equitable adjustment or substitution in the number and class of shares reserved for issuance under this Plan, the number and class of shares covered by outstanding Awards and the option price per share of Stock Options or the applicable price per share specified in Stock Appreciation Rights to reflect the effect of such change in corporate structure or capitalization on the Stock; provided, however, that any fractional shares resulting from such adjustment shall be eliminated; provided further, however, that if by reason of any such change in corporate structure or capitalization a Participant holding a Restricted Stock Unit Award or Performance Stock Unit Award shall be entitled, subject to the terms and conditions of such Award, to additional or different shares of any security, the issuance of such additional or different shares shall thereupon be subject to all of the terms and conditions (including restrictions and performance criteria) which were applicable to such Award prior to such change in corporate structure or capitalization; and, provided, further, however, that unless the Committee in its sole discretion determines otherwise, any issuance by the Corporation of shares of stock of any class or securities convertible into shares of stock of any class shall not affect, and no such adjustment or substitution by reason thereof

shall be made with respect to, the number or class of shares reserved for issuance under this Plan, the number or class of shares covered by outstanding Awards or any option price or applicable price.

SECTION 4. ELIGIBILITY.

Directors, officers and other employees of the Corporation, its Subsidiaries and its Related Entities who are responsible for or contribute to the management, growth or profitability of the business of the Corporation, its Subsidiaries or its Related Entities, as determined by the Committee, shall be eligible to be granted Awards; provided however, with respect to an employee of a Related Entity, that such person was an employee of the Corporation, a Subsidiary or, if originally an employee of the Corporation or a Subsidiary, of another Related Entity immediately prior to becoming employed by such Related Entity and accepted employment with such Related Entity at the request of the Corporation or a Subsidiary. The Participants under this Plan shall be selected, from time to time, by the Committee, in its sole discretion, from among those Eligible Employees.

SECTION 5. STOCK OPTIONS.

(a) GRANT AND EXERCISE. Stock Options may be granted either alone or in addition to other Awards granted under this Plan. Any Stock Option granted under this Plan shall be in such form as the Committee may, from time to time, approve, and the terms and conditions of Stock Option Awards need not be the same with respect to each Optionee. Each Optionee shall enter into a Stock Option agreement ("Stock Option Agreement") with the Corporation, in such form as the Committee shall determine, which agreement shall set forth, among other things, the exercise price of the Stock Option, the term of the Stock Option and conditions regarding exercisability of the Stock Option granted thereunder.

(i) NATURE OF OPTIONS. The Committee shall have the authority to grant any Participant either Incentive Stock Options, Nonqualified Stock Options or both types of Stock Options (in each case with or without Stock Appreciation Rights), except that the Committee shall not grant any Incentive Stock Options to an employee of a Related Entity. Any Stock Option which does not qualify as an Incentive Stock Option, or the terms of which at the time of its grant provide that it shall not be treated as an Incentive Stock Option, shall constitute a Nonqualified Stock Option.

(ii) EXERCISABILITY. Subject to such terms and conditions as shall be determined by the Committee in its sole discretion at or after the time of grant, Stock Options shall be exercisable from time to time (a) to the extent of twenty-five percent (25%) of the number of shares of Stock covered by the Stock Option, on and after the first anniversary and before the second anniversary of the date of grant of the Stock Option, (b) to the extent of fifty percent (50%) of the number of shares of Stock covered by the Stock Option, on and after the second anniversary and before the third anniversary of the date of grant of the Stock Option, (c) to the extent of seventy-five percent (75%) of the number of shares of Stock covered by the Stock Option, on and after the third anniversary and before the fourth anniversary of the date of grant of the Stock Option and (d) to the extent of one hundred percent (100%) of the number of shares of Stock covered by the Stock Option, on and after the fourth anniversary of the date of grant of the Stock Option and before the expiration of the stated term of the Stock Option (or to such lesser extent as the Committee in its sole discretion shall determine at the time of grant or to such greater extent as the Committee in its sole discretion shall determine at or after the time of grant).

(iii) METHOD OF EXERCISE. Stock Options may be exercised by giving written notice of exercise delivered in person or by mail as required by the terms of any Stock Option Agreement at the Corporation's principal executive office, specifying the number of shares of Stock with respect to which the Stock Option is being exercised, accompanied by payment in full of the option price in cash or its equivalent as determined by the Committee in its sole discretion. If requested by the Committee, the Optionee shall deliver to the Corporation the Stock Option Agreement evidencing the Stock Option being exercised for notation thereon of such exercise and return thereafter of such agreement to the Optionee. As determined by the Committee in its sole discretion at or after the time of grant, payment of the option price in full or in part may also be made in the form of shares of unrestricted Stock

already owned by the Optionee (based on the Fair Market Value of the Stock on the date the Stock Option is exercised); provided, however, that in the case of an Incentive Stock Option, the right to make payment of the option price in the form of already owned shares of Stock may be authorized only at the time of grant. The Committee also may allow cashless exercise as permitted under Federal Reserve Board's Regulation T, subject to applicable securities law restrictions, or by any other means which the Committee determines to be consistent with this Plan's purpose and applicable law. An Optionee shall generally have the rights to dividends or other rights of a stockholder with respect to shares of Stock subject to the Stock Option when the Optionee has given written notice of exercise, has paid in full for such shares of Stock, and, if requested, has made representations described in Section 10(a) of this Plan.

- (b) TERMS AND CONDITIONS. Stock Options granted under this Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee shall deem desirable.
- (i) OPTION PRICE. The option price per share of Stock purchasable under a Stock Option shall be determined by the Committee at the time of grant, but shall be not less than 100% of the Fair Market Value of the Stock on the date of the grant; provided, however, that if any Participant owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Corporation or any Subsidiary when an Incentive Stock Option is granted to such Participant, the option price of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be not less than 110% of the Fair Market Value of the Stock on the date such Incentive Stock Option is granted.
- (ii) OPTION TERM. The term of each Stock Option shall be fixed by the Committee at the time of grant, but no Stock Option shall be exercisable more than ten years after the date such Stock Option is granted; provided, however, that if any Participant owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Corporation or any Subsidiary when an Incentive Stock Option is granted to such Participant, such Stock Option (to the extent required by the Code at time of grant) shall not be exercisable more than five years from the date such Incentive Stock Option is granted.
- (iii) TRANSFERABILITY OF OPTIONS. Except as otherwise determined by the Committee, no Stock Option shall be transferable by the Optionee otherwise than by will or by the laws of descent and distribution and, during the Optionee's lifetime, all Stock Options shall be exercisable only by the Optionee, or in the case of Optionee's legal incompetency, only by Optionee's guardian or legal representative.
- (iv) OPTION EXERCISE AFTER TERMINATION BY REASON OF DEATH OR DISABILITY. If an Optionee's employment with the Corporation, any Subsidiary or any Related Entity terminates by reason of death or Disability, and Stock Option held by such Optionee may thereafter be exercised for a period of one year (or such shorter or longer period as the Committee in its sole discretion shall specify at or after the time of grant) from the date of such termination or until the expiration of the stated term of such Stock Option, whichever period is shorter, to the extent to which the Optionee would on the date of termination have been entitled to exercise the Stock Option (or to such greater or lesser extent as the Committee in its sole discretion shall determine at or after the time of grant). In the event of a termination of employment by reason of death or Disability, if an Incentive Stock Option is exercised after the expiration of the exercise period that applies for purposes of Section 422 of the Code, such Stock Option will thereafter be treated as a Nonqualified Stock Option.
- (v) OPTION EXERCISE AFTER TERMINATION WITHOUT CAUSE OR CONSTRUCTIVE TERMINATION. If an Optionee's employment with the Corporation, any Subsidiary, or any Related Entity is terminated, by the Corporation or such Subsidiary or such Related Entity, without "Cause" (as such term is defined in the Stock Option Agreement) or in the event of "Constructive Termination" (as such term is defined in the Stock Option Agreement), the Committee, in its sole discretion, may permit the Optionee to

exercise any Stock Option held by such Optionee, to the extent not theretofore exercised, in whole or in part with respect to all remaining shares covered by the Stock Option at any time prior to the expiration of the Stock Option (or such shorter period as the Committee in its sole discretion shall specify at or after the time of grant), or to such greater or lesser extent as the Committee in its sole discretion shall determine at or after the time of grant. An Optionee's acceptance of employment, at the request of the Corporation or a Subsidiary, with a Related Entity (or acceptance of employment, at the request of the Corporation or a Subsidiary, with any other Related Entity), shall not be deemed a termination of employment hereunder and any Stock Option held by Optionee may be exercised thereafter to the extent that the Optionee would on the date of exercise have been entitled to exercise such Stock Option if such Optionee had continued to be employed by the Corporation or such Subsidiary (or such initial Related Entity), provided that the Optionee has been in continuous employ with the Related Entity to which such Optionee has moved from the date of acceptance of employment therewith until the date of exercise. In the event of termination of employment by the Corporation, any Subsidiary or any Related Entity without Cause or in the event of Constructive Termination of the Optionee's employment or the acceptance of employment with a Related Entity, if an Incentive Stock Option is exercised after the expiration of the exercise period that applies for purposes of Section 422 of the Code, such Stock Option will thereafter be treated as a Nonqualified Stock Option.

- (vi) **OPTION EXERCISE AFTER TERMINATION TO RESIGNATION.** If an Optionee's employment with the Corporation, any Subsidiary, or any Related Entity terminates as a result of Optionee's voluntary resignation, other than a voluntary resignation due to a Constructive Termination (as defined in the Stock Option Agreement), the Committee, in its sole discretion, may permit the Optionee to exercise any Stock Option held by such Optionee to the extent such Option was exercisable on the date of such termination (or to such greater or lesser extent as the Committee in its sole discretion shall determine at or after the time of grant) for a period of time equal to the shorter of (i) ninety (90) days from the date of such termination (or such shorter period as the Committee in its sole discretion shall specify at or after the time of grant) or (ii) the expiration of the stated term of such Stock Option.
- (vii) **OTHER TERMINATION.** Except as otherwise provided in this Section 5 of this Plan, or as determined by the Committee in its sole discretion, if an Optionee's employment with the Corporation, any Subsidiary or any Related Entity terminates, all Stock Options held by the Optionee will terminate immediately without the necessity of any further action by the Corporation, the Committee or the Optionee.
- (viii) **ANNUAL LIMIT ON INCENTIVE STOCK OPTIONS.** To the extent required for incentive stock option treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the date of Incentive Stock Option is granted) of the shares of Stock with respect to which Incentive Stock Options granted under this Plan and all other option plans of the Corporation or any Subsidiary become exercisable for the first time by an Optionee during any calendar year shall not exceed \$100,000; provided, however, that if the aggregate Fair Market Value (so determined) of the shares of Stock covered by such options exceeds \$100,000 during any year in which they become exercisable, such options with a Fair Market Value in excess of \$100,000 will be Nonqualified Stock Options.

SECTION 6. STOCK APPRECIATION RIGHTS.

- (a) **GRANT AND EXERCISE.** Stock Appreciation Rights may be granted either in conjunction with all or part of any Stock Option granted under this Plan ("Related Stock Appreciation Rights") or alone ("Freestanding Stock Appreciation Rights") and, in either case, in addition to other Awards granted under this Plan. Participants shall enter into a Stock Appreciation Rights Agreement with the Corporation if requested by the Committee, in such form as the Committee shall determine.
 - (i) **TIME OF GRANT.** Related Stock Appreciation Rights related to a Nonqualified Stock Option may be granted either at or after the time of the grant of such Nonqualified Stock Option. Related Stock Appreciation Rights related to such an Incentive Stock Option may be granted only at the time of the

grant of such Incentive Stock Option. Freestanding Stock Appreciation Rights may be granted at any time.

(ii) EXERCISABILITY. Related Stock Appreciation Rights shall be exercisable only at such time or times and to the extent that the Stock Options to which they relate shall be exercisable in accordance with the provisions of Section 5(a)(ii) of this Plan and Freestanding Stock Appreciation Rights shall be exercisable, subject to such terms and conditions as shall be determined by the Committee in its sole discretion at or after the time of grant, from time to time, to the extent that Stock Options are exercisable in accordance with the provisions of Section 5(a)(ii) of this Plan. A Related Stock Appreciation Right granted in connection with an Incentive Stock Option may be exercised only if and when the Fair Market Value of the Stock subject to the Incentive Stock Option exceeds the option price of such Stock Option.

(iii) METHOD OF EXERCISE. Stock Appreciation Rights shall be exercised by a Participant by giving written notice of exercise delivered in person or by mail as required by the terms of any agreement evidencing the Stock Appreciation Right at the Corporation's principal executive office, specifying the number of shares of Stock in respect of which the Stock Appreciation Right is being exercised. If requested by the Committee, the Participant shall deliver to the Corporation the agreement evidencing the Stock Appreciation Right being exercised and, in the case of a Related Stock Appreciation Right, the Stock Option Agreement evidencing any related Stock Option, for notation thereon of such exercise and return thereafter of such agreements to the Participant.

(iv) AMOUNT PAYABLE. Upon the exercise of a Related Stock Appreciation Right, an Optionee shall be entitled to receive an amount in cash or shares of Stock equal in value to the excess of the Fair Market Value of one share of Stock on the date of exercise over the option price per share specified in the related Stock Option, multiplied by the number of shares of Stock in respect of which the Related Stock Appreciation Rights shall have been exercised, with the Committee having in its sole discretion the right to determine the form of payment. Upon the exercise of a Freestanding Stock Appreciation Right, a Participant shall be entitled to receive an amount in cash or shares of Stock equal in value to the excess of the Fair Market Value of one share of Stock on the date of exercise over the price per share specified in the Freestanding Stock Appreciation Right, which shall be not less than 100% of the Fair Market Value of the Stock on the date of Grant, multiplied by the number of shares of Stock in respect of which the Freestanding Stock Appreciation Rights shall have been exercised, with the Committee having in its sole discretion the right to determine the form of payment.

(b) TERMS AND CONDITIONS. Stock Appreciation Rights under this Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions not inconsistent with the terms of this Plan, as the Committee shall deem desirable.

(i) TERMS OF STOCK APPRECIATION RIGHTS. The term of a Related Stock Appreciation Right shall be the same as the term of the related Stock Option. A Related Stock Appreciation Right or applicable portion thereof shall terminate and no longer be exercisable upon the exercise, termination, cancellation or surrender of the related Stock Option, except that, unless otherwise provided by the Committee in its sole discretion at or after the time of grant, a Related Stock Appreciation Right granted with respect to less than the full number of shares of Stock covered by a related Stock Option shall terminate and no longer be exercisable if and to the extent that the number of shares of Stock covered by the exercise, termination, cancellation or surrender of the related Stock Option exceeds the number of shares of Stock not covered by the Related Stock Appreciation Right.

The term of each Freestanding Stock Appreciation Right shall be fixed by the Committee, but no Freestanding Stock Appreciation Right shall be exercisable more than ten years after the date such right is granted.

(ii) TRANSFERABILITY OF STOCK APPRECIATION RIGHTS. Stock Appreciation Rights shall be transferable only when and to the extent that a Stock Option would be transferable under Section 5(b)(iii) of this Plan.

(iii) TERMINATION OF EMPLOYMENT. In the event of the termination of employment of an Optionee holding a Related Stock Appreciation Right, such right shall be exercisable to the same extent that the related Stock Option is exercisable after such termination. In the event of the termination of employment of the holder of a Freestanding Stock Appreciation Right, such right shall be exercisable to the same extent that a Stock Option with the same terms and conditions as such Freestanding Stock Appreciation Right would have been exercisable in the event of the termination of employment of the holder of such Stock Option.

SECTION 7. RESTRICTED STOCK UNITS AND PERFORMANCE STOCK UNITS.

- (a) GRANT. Awards of Restricted Stock Units or Performance Stock Units may be granted either alone or in addition to other Awards granted under this Plan. Each Restricted Stock Unit or Performance Stock Unit represents the right to receive, subject to the terms and provisions of this Plan and any agreements evidencing such Awards, one share of Stock. If the Committee in its sole discretion so determines at the time of grant, a Participant to whom a Restricted Stock Unit Award or Performance Stock Unit Award has been granted may be credited with an amount equivalent to all cash dividends ("Dividend Equivalents") that would have been paid to the holder of such Restricted Stock Unit Award or Performance Stock Unit Award if one share of Stock for every Restricted Stock Unit or Performance Stock Unit awarded had been issued to the holder on the date of grant of such Restricted Stock Unit Award or Performance Stock Unit Award. The Committee shall determine the terms and conditions of each Restricted Stock Unit Award and Performance Stock Unit, including without limitation, the number of Restricted Stock Units or Performance Stock Units to be covered by such Awards, the restricted period applicable to Restricted Stock Unit Awards and the performance objectives applicable to Performance Stock Unit Awards. The Committee in its sole discretion may prescribe terms and conditions applicable to the vesting of such Restricted Stock Unit Awards or Performance Stock Unit Awards in addition to those provided in this Plan. The Committee shall establish such rules and guidelines governing the crediting of Dividend Equivalents, including the timing, form of payment and payment contingencies of Dividend Equivalents, as it may deem desirable. The Committee in its sole discretion may at any time accelerate the time at which the restrictions on all or any part of a Restricted Stock Unit Award lapse or deem the performance objectives with respect to all or any part of a Performance Stock Unit Award to have been attained. Restricted Stock Units Awards and Performance Stock Unit Awards shall not be transferable otherwise than by will or by the laws of descent and distribution. Shares of Stock shall be deliverable upon the vesting of Restricted Stock Unit Awards and Performance Stock Unit Awards for no consideration other than services rendered or, in the Committee's sole discretion, the minimum amount of consideration other than services (such as the par value of Stock) required to be received by the Corporation in order to assure compliance with applicable state law, which amount shall not exceed 10% of the Fair Market Value of such shares of Stock on the date of issuance. Each such Award shall be evidenced by a Restricted Stock Unit Award agreement ("Restricted Stock Unit Award Agreement") or Performance Stock Unit Award agreement ("Performance Stock Unit Award Agreement").
- (b) TERMS AND CONDITIONS. Unless otherwise determined by the Committee in its sole discretion:
- (i) a breach of any term or condition provided in this Plan, the Restricted Stock Unit Award Agreement or the Performance Stock Unit Award Agreement or established by the Committee with respect to such Restricted Stock Unit Award or Performance Stock Unit Award will cause a cancellation of the unvested portion of such Restricted Stock Unit Award or Performance Stock Unit Award (including any Dividend Equivalents credited in respect thereof) and the Participant shall not be entitled to receive any consideration in respect of such cancellation; and
 - (ii) termination of such holder's employment with the Corporation, any Subsidiary or any Related Entity prior to the lapsing of the applicable restriction period or attainment of applicable performance objectives will cause a cancellation of the unvested portion of such Restricted Stock Unit Award or Performance Stock Unit Award (including any Dividend Equivalents credited in respect thereof) and the Participant shall not be entitled to receive any consideration in respect of such cancellation.

(c) COMPLETION OF RESTRICTION PERIOD AND ATTAINMENT OF PERFORMANCE OBJECTIVES. To the extent that restrictions with respect to any Restricted Stock Unit Award lapse or performance objectives with respect to any Performance Stock Unit Award are attained and provided that other applicable terms and conditions have been satisfied:

- (i) such of the Restricted Stock Units or Performance Stock Units as to which restrictions have lapsed or performance objectives have been attained shall become vested and the Committee shall cause to be issued and delivered to the Participant a stock certificate representing a number of shares of Stock equal to such number of Restricted Stock Units or Performance Stock Units, and, subject to Section 10(a) hereof, free of all restrictions; and
- (ii) any Dividend Equivalents credited in respect of such Restricted Stock Units or Performance Stock Units shall become vested to the extent that such Restricted Stock Units or Performance Stock Units shall have become vested and the Committee shall cause such Dividend Equivalents to be delivered to the Participant.

Any such Restricted Stock Unit Award or Performance Stock Unit Award (including any Dividend Equivalents credited in respect thereof) that shall not have become vested at the end of the applicable restricted period or the period given for the attainment of performance objectives shall expire, terminate and be canceled and the Participant shall not thereafter have any rights with respect to the Restricted Stock Units or Performance Stock Units (or any Dividend Equivalents credited in respect thereto) covered thereby.

SECTION 8. AMENDMENT AND TERMINATION.

The Board may amend, alter, or discontinue this Plan, but no amendment, alteration, or discontinuation shall be made which would impair the rights of a Participant under any Award theretofore granted without such Participant's consent, or which, without the approval of the stockholders of the Corporation (where such approval is necessary to satisfy then applicable requirements of Rule 16b-3 under the Exchange Act, The Nasdaq Stock Market, Inc., any Federal tax law relating to Incentive Stock Options or any applicable state law), would:

- (a) except as provided in Section 3 of this Plan, increase the total number of shares of Stock which may be issued under this Plan;
- (b) except as provided in Section 3 of this Plan, decrease the option price of any Stock Option to less than 100% of the Fair Market Value on the date of the grant of the Option;
- (c) change the class of employees eligible to participate in this Plan; or
- (d) extend (i) the period during which Stock Options may be granted or (ii) the maximum period of any Award under Sections 5(b)(ii) or 6(b)(i) of this Plan.

Except as restricted herein with respect to Incentive Stock Options, the Committee may amend or alter the terms and conditions of any Award theretofore granted, and of any agreement evidencing such Award, prospectively or retroactively, but no such amendment or alteration shall impair the rights of any Optionee under such Award or agreement without such Optionee's consent.

SECTION 9. UNFUNDED STATUS OF PLAN.

This Plan is intended to constitute an "unfunded" plan. With respect to any payments not yet made and due to a Participant by the Corporation, nothing contained herein shall give any such Participant any rights that are greater than those of a general unsecured creditor of the Corporation.

SECTION 10. GENERAL PROVISIONS.

- (a) The Committee may require each Optionee purchasing shares of Stock pursuant to a Stock Option to represent to and agree with the Corporation in writing that such Optionee is acquiring the shares of Stock without a view to distribution thereof. All certificates for shares of Stock delivered under this Plan and, to the extent applicable, all evidences of ownership with respect to Dividend Equivalents delivered under this Plan, shall be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed or quotation system on which the Stock is admitted for trading and any applicable Federal or state securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.
- (b) Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required, and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of this Plan shall not confer upon any employee of the Corporation, any Subsidiary or any Related Entity any right to continued employment with the Corporation, any Subsidiary or any Related Entity as the case may be, nor shall it interfere in any way with the right of the Corporation, any Subsidiary or any Related Entity to terminate the employment of any of its employees at any time.
- (c) Each Participant shall be deemed to have been granted an Award on the date the Committee took action to grant such Award under this Plan or such later date as the Committee in its sole discretion shall determine at the time such grant is authorized.
- (d) Unless the Committee otherwise determines, each Participant shall, no later than the date as of which the value of an Award first becomes includable in the gross income of the Participant for federal income tax purposes, pay to the Corporation, or make arrangements satisfactory to the Committee regarding payment of, any federal, state or local taxes of any kind required by law to be withheld with respect to the Award. The obligations of the Corporation under this Plan shall be conditional on such payment or arrangements and the Corporation (and, where applicable, its Subsidiaries and its Related Entities) shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant. A Participant may elect to have such tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Corporation to withhold from shares of Stock to be issued upon the exercise of a Stock Option or upon the vesting of any Restricted Stock Unit Award or the Performance Stock Unit Award a number of shares of Stock with an aggregate Fair Market Value that would satisfy the withholding amount due, or (ii) transferring to the Corporation shares of Stock owned by the Participant with an aggregate Fair Market Value that would satisfy the withholding amount due. With respect to any Participant who is a director or an executive officer, the election to satisfy the tax withholding obligations relating to the exercise of a Stock Option or to the vesting of a Restricted Stock Unit Award or Performance Stock Unit Award in the manner permitted by this subsection (d) shall be made during the "window period" as described within the Corporation Insider Trading Policy unless otherwise determined in the sole discretion of the Committee of the Board.
- (e) No member of the Board or the Committee, nor any officer or employee of the Corporation acting on behalf of the Board or the Committee, shall be personally liable for any action, failure to act, determination or interpretation taken or made in good faith with respect to this Plan, and all members of the Board or the Committee and each and any officer or employee of the Corporation acting on their behalf shall, to the extent permitted by law and by the Corporation's Amended and Restated Certificate of Incorporation, as amended, and its Amended and Restated By-Laws, as amended, be fully indemnified and protected by the Corporation in respect of any such action, failure to act, determination or interpretation.
- (f) This Plan is intended to satisfy the conditions of Rule 16b-3 under the Exchange Act, and all interpretations of this Plan shall, to the extent permitted by law, regulations and rulings, be made in a manner consistent with and so as to satisfy the conditions of Rule 16b-3 under the Exchange Act. The term "executive officer" as used in

this Plan means any officer who is subject to the provisions of Section 16(b) of the Exchange Act. Any provisions of this Plan or the application of any provision of this Plan inconsistent with Rule 16b-3 under the Exchange Act shall be inoperative and shall not affect the validity of this Plan.

- (g) In interpreting and applying the provisions of this Plan, any Stock Option granted as an Incentive Stock Option pursuant to this Plan shall, to the extent permitted by law, regulations and rulings be construed as, and any ambiguity shall be resolved in favor of preserving its status as, an "incentive stock option" within the meaning of Section 422 of the Code. Once an Incentive Stock Option has been granted, no action by the Committee that would cause such Stock Option to lose its status under the Code as an "incentive stock option" shall be effective as to such Incentive Stock Option unless taken at the request of or with the consent of the Participant. Notwithstanding any provision to the contrary in this Plan or in any Incentive Stock Option granted pursuant to this Plan, if any change in law or any regulation or ruling of the Internal Revenue Service shall have the effect of disqualifying any Stock Option granted under this Plan which is intended to be an "incentive stock option" within the meaning of Section 422 of the Code, the Stock Option granted shall nevertheless continue to be outstanding as and shall be deemed to be a Nonqualified Stock Option under this Plan.
- (h) Notwithstanding any other provision herein to the contrary, the maximum number of shares with respect to which Awards may be granted to the same Participant under this Plan may not exceed, in the aggregate, 266,666 shares of Stock, except to the extent of adjustments authorized by Section 3 of this Plan.

SECTION 11. EFFECTIVE DATE OF PLAN.

This Plan shall be effective February 5, 2002.

SECTION 12. TERM OF PLAN.

No Award shall be granted under this Plan on or after the tenth anniversary of the effective date of this Plan; provided, however, that the exercisability of Awards granted prior to such tenth anniversary may extend beyond that date.

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 or related entities. Any capitalized term used in this Agreement that is not defined herein shall have the meaning thereof set forth in the Universal Electronics Inc. 2002 Stock Incentive Plan (the "Plan").

WHEREAS, the Compensation Committee of the Board of Directors of the Corporation (the "Committee") and the Board of Directors of the Corporation (the "Board") have approved the Plan;

WHEREAS, the Board has designated and empowered the Committee to administer the Plan; and

WHEREAS, the Committee has determined that the Optionee, as an Eligible Employee, should be granted a stock option ("Option") under the Plan 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.
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 6101 Gateway Drive, Cypress, California 90630 to the attention of the Secretary of the Corporation. The Exercise Notice shall state (a) the election to exercise the Option, (b) the total number of full shares in respect to which it is being exercised, and (c) 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 plus an amount necessary to satisfy Optionee's obligations pursuant to Section 11, or as may be permitted by the Committee, by certificates for shares of Stock which have been owned by the Optionee for more than six months prior to the date of exercise and which have a fair market value of the date of exercise equal to the purchase price, or by a combination of such methods of 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. In a cashless exercise, as permitted under Federal Reserve Board's Regulation T, subject to applicable securities law restrictions, Optionee must notify the Corporation as to the manner of the transaction.
4. OPTIONEE'S COVENANTS AND 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.
 - (d) Optionee agrees that if Optionee should dispose of any Shares acquired upon the exercise of an Incentive Stock Option, including a disposition by sale, exchange, gift or transfer of legal title within two (2) years after the date such Option was granted to the Optionee or within one (1) year after the transfer of such Shares to the Optionee upon the exercise of such Option, the Optionee shall notify the Company within three (3) days after such disposition.
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 Sections 7 and 8 below and subject to the limitations set forth in Section 9(b), 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 Section 8), during the earlier of (a) the ninety (90) day period following such cessation of employment or (b) 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 last day of the applicable exercise period as set forth in this Section 6; provided, however, the Committee, 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 original Option Period.
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 Section 7(b) below) or in the event of "Constructive Termination" (as such term is defined in Section 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 original Option Period, subject to the limitations set forth in Section 9(b).
 - (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 Section 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 a reasonable belief that Optionee's action or omission was in the interests of the Corporation or not opposed to the best 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 that 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 such term is defined in Section 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 (including any non-director added pursuant to this clause), 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 outstanding immediately 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, subject to the limitations set forth in Section 9(b), during the earlier of (a) the one (1) year period following such cessation or termination of employment or (b) 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 last day of the applicable exercise period as set forth in this Section 8; provided, however, the Committee, 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 original Option Period.

9. LIMITATIONS ON EXERCISE OF INCENTIVE STOCK OPTION.

(a) Notwithstanding the foregoing, any Incentive Stock Option granted pursuant to this Agreement will be exercisable only to the extent that the aggregate fair market value of the Stock with respect to which the option first becomes exercisable during any calendar year would not exceed \$100,000 (the "\$100,000 Exercise Limitation"). In determining whether the \$100,000 Exercise Limitation would be exceeded, all Incentive Stock Options granted to the Optionee that first become exercisable in that year will be included in the calculation, whether granted under the Plan or under any other option plan of the Corporation. If the \$100,000 Exercise Limitation would be exceeded with respect to any Incentive Stock Option grant, the maximum whole number of underlying shares with an aggregate fair market value not in excess of \$100,000 shall be treated as issued pursuant to an Incentive Stock Option and the remaining shares shall be treated as issued pursuant to a Non-qualified Stock Option. Finally, if the Option ceases to qualify as an Incentive Stock Option, as a result of the failure of the Optionee to exercise the Option within the three (3) month period specified in Section 9(b) below, the \$100,000 Exercise Limitation shall not apply.

(b) In the case of an Incentive Stock Option, the Option must be exercised in full within three (3) months after cessation of employment, or such Option will no longer qualify as an Incentive Stock Option and shall thereafter be, and receive the tax treatment applicable to, a Non-qualified Stock Option.

10. RIGHT OF A STOCKHOLDER. Optionee shall not have any rights as a stockholder with respect to any shares of Stock underlying a Stock Option, unless and until all the conditions set forth in Section 5(a) (iii) have been satisfied.

11. 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 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.

12. 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, spin-off, merger, consolidation, split-up, combination, exchange of shares or the like, the Committee shall adjust the number of shares of Stock which may be issued under the Plan and shall provide for an equitable adjustment of the exercise price of and the number of shares of Stock issuable pursuant to each outstanding Option under the Plan.

13. COMPLIANCE WITH CERTAIN LAWS AND REGULATIONS. If the Committee 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 Committee or the Corporation, as the case may be, with such certificates, representations and information as the Committee 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.

14. TRANSFERABILITY OF OPTION. The Option is not transferable by the Optionee otherwise than by will or by the laws of descent and distribution and is exercisable, during the Optionee's lifetime, only by the Optionee, or in the case of Optionee's legal incompetency, only by Optionee's guardian or legal representative.

15. 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 _____, _____, 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.

16. NOTICES. Any notice or demand 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, and to the Corporation at the address set forth or established pursuant to Section 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 or demand under this Agreement will be deemed to have been given when received.
17. 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.
18. 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.
19. 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.
20. 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.
21. 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.
22. 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.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed this Agreement effective on the
____ day of _____, ____.

OPTIONEE

UNIVERSAL ELECTRONICS INC.

Signature

By: _____
Chairman and Chief Executive
Officer

Print Name

Certificate Number: _____

UNIVERSAL ELECTRONICS INC.
2002 STOCK INCENTIVE PLAN
STOCK OPTION CERTIFICATE

THIS CERTIFIES THAT _____ has been awarded an OPTION to purchase _____ (_____) shares of common stock, par value \$0.01 per share (the "Stock"), of UNIVERSAL ELECTRONICS INC. 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"). The number of shares of Stock subject to an Incentive Stock Option, the number of shares of Stock subject to a Non-qualified Stock Option, and the respective Option prices are as set forth below:

- (a) _____ (_____) shares of Stock shall be subject to an Incentive Stock Option at an Option price of \$_____ per share; and
- (b) _____ (_____) shares of Stock shall be subject to a Non-qualified Stock Option at an Option price of \$_____ per share.

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 -----	Incentive Stock Option Maximum Percentage Taking Into Account Prior Exercises -----	Non-qualified Stock Option Maximum Percentage Taking Into Account Prior Exercises -----
	25%	25%
	50%	50%
	75%	75%
	100%	100%

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

UNIVERSAL ELECTRONICS INC.

By: _____
Its: Chairman and Chief Executive Officer

EXHIBIT 99.1
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Paul D. Arling, as Chief Executive Officer of Universal Electronics Inc. (the "Company"), certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul D. Arling

Paul D. Arling
Chief Executive Officer
August 14, 2002

EXHIBIT 99.2
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Mark Z. Belzowski, as Chief Financial Officer of Universal Electronics Inc. (the "Company"), certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark Z. Belzowski

Mark Z. Belzowski
Chief Financial Officer
August 14, 2002