

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

(mark one)

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

For the fiscal year ended December 31, 2003

OR

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

For the transition period from _____ to _____.

Commission File Number: 0-21044

UNIVERSAL ELECTRONICS INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

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

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

90630
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, par value \$.01 per share

(Title of class)

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

Yes No

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2003, the last business day of the registrant's most recently completed second fiscal quarter: \$169,426,782. As of February 27, 2004, 13,691,718 shares of Common Stock, par value \$.01 per share, of the Registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive Proxy Statement for its 2004 Annual Meeting of Stockholders to be held on June 14, 2004 are incorporated by reference into Part III of this Form 10-K. The Proxy Statement will be filed with the Securities and Exchange Commission no later than April 27, 2004.

Except as otherwise stated, the information contained in this Form 10-K is as of December 31, 2003.

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

ITEM 2. PROPERTIES

ITEM 3. LEGAL PROCEEDINGS

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

PART II

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

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

ITEM 9A. CONTROLS AND PROCEDURES

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

ITEM 14. Principal Accountant Fees and Services

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

SIGNATURES

EXHIBIT 10.42

EXHIBIT 10.43

EXHIBIT 14.1

EXHIBIT 21.1

EXHIBIT 23.1

EXHIBIT 31.1

EXHIBIT 31.2

EXHIBIT 32.1

EXHIBIT 32.2

UNIVERSAL ELECTRONICS INC.
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2003

Table of Contents

Item Number		Page Number
PART I		
1	Business	3
2	Properties	7
3	Legal Proceedings	8
4	Submission of Matters to a Vote of Security Holders	9
PART II		
5	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	11
6	Selected Consolidated Financial Data	12
7	Management's Discussion and Analysis of Financial Condition and Results of Operations	13
7A	Quantitative and Qualitative Disclosures About Market Risk	26
8	Financial Statements and Supplementary Data	27
9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	53
9A	Controls and Procedures	53
PART III		
10	Directors and Executive Officers of the Registrant	53
11	Executive Compensation	53
12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	54
13	Certain Relationships and Related Transactions	55
14	Principal Accountant Fees and Services	55
PART IV		
15	Exhibits, Financial Statement Schedules and Reports on Form 8-K	55
	Signatures	56
	Exhibit Index	57

PART I

ITEM 1. BUSINESS

Business of Universal Electronics Inc.

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

Universal Electronics Inc., based in Southern California, develops software, firmware and turnkey solutions designed to enable consumers to wirelessly connect, control and interact with an increasingly complex home environment. The Company’s primary markets include original equipment manufacturers (OEMs) in consumer electronics and personal computing, as well as multiple system operators in the cable and satellite subscription broadcasting markets. Over the past 16 years, the Company has developed a broad portfolio of patented technologies and the industry’s leading database of home connectivity software that it licenses to its customers, including many leading Fortune 500 companies. In addition, the Company sells its universal wireless control products and other audio/visual accessories through its European headquarters in The Netherlands, and to distributors and retailers in Europe, Asia, Latin America, South Africa Australia, New Zealand, the Middle East, and Mexico under the One For All® brand name. More information about the Company can be obtained at www.uei.com.

General Business Information

Universal has developed a broad line of easy-to-use, pre-programmed universal wireless control products that are marketed principally for home video and audio entertainment equipment through various channels of distribution, including international retail, private label, OEMs, and cable and satellite service providers and to companies in the computing industry. Universal believes that its universal wireless controls can operate virtually all infrared remote (“IR”) controlled TVs, VCRs, DVD players, cable converters, CD players, audio components and satellite receivers, as well as most other infrared remote controlled devices worldwide.

Beginning in 1986 and continuing today, Universal has compiled an extensive library of over 171,000 IR codes that cover nearly 141,000 individual device functions and over 2,100 individual consumer electronic equipment brand names. Universal’s library is regularly updated with new IR codes used in newly introduced video and audio devices. All such IR codes are captured from the original manufacturer’s remote control devices to ensure the accuracy and integrity of the database. Universal’s proprietary software and know-how permit IR codes to be compressed before being loaded into its products. This provides significant cost and space efficiencies that enable Universal to include more codes and features in the memory space of the wireless control device than are included in similarly priced products of competitors. Universal has developed a patented technology that provides the capability to easily upgrade the memory of the wireless control device by adding IR codes from its library that were not originally included.

The matters discussed in this Annual Report on Form 10-K should be read in conjunction with the consolidated financial statements provided under Part II, Item 8 of this Annual Report on Form 10-K. Certain statements contained herein may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, as discussed more fully herein. See, “Factors That May Affect Financial Condition and Future Results” in this Form 10-K.

Products

Universal introduced its first product, the *One For All*, in 1987. Universal’s family of products includes universal standard and touch screen remote controls, wireless keyboards, game controllers, antennas, and various audio/video accessories, as well as custom and customizable microcontrollers that include Universal’s library of IR codes and proprietary software, and licensing of Universal’s library of IR codes and proprietary software. These products cover a broad spectrum of suggested prices and performance capabilities. Universal sells its customized products to international retailers and distributors, consumer electronic accessory suppliers, private label customers, OEMs, cable operators and satellite service providers for resale under the *One For All*® brand name and/or their customers’ respective private label brands. Universal’s products are

Table of Contents

capable of controlling a multitude of audio and video devices, including, but not limited to, TVs, VCRs, DVD players, cable converters, CD players, satellite receivers, laser disc players, amplifiers, tuners, turntables, cassette players, digital audio tape players, surround sound systems, and most home automation control modules.

Each of Universal's wireless control devices is designed to simplify the use of video, audio and other devices. To appeal to the mass market, the number of buttons is minimized to include only what Universal believes to be the most popular functions. Universal's remotes are also designed for ease of set-up. For most of Universal's products, the consumer simply inputs a four-digit code for each video or audio device to be controlled. Each remote contains a RAM, a ROM, or a combination of ROM and EEPROM chips. The RAM and the ROM and EEPROM combination products allow the remote to be upgraded with additional codes, one of Universal's patented features. Another patented ease of use feature Universal offers in several of its products is its user programmable macro key. This feature allows the user to program a sequence of commands onto a single key, to be played back each time that key is subsequently pressed.

By providing its wireless control technology in many forms, including finished products and microcontrollers on which Universal's software is embedded, Universal can meet the needs of its customers, enabling those who manufacture or subcontract their manufacturing requirements to use existing sources of supply and more easily incorporate Universal's technology.

During 2003, Universal continued its product innovation by launching several new products based on the two popular new technology platforms developed in 2002; Nevo™, an embedded solution that transforms any electronic display (such as HP's iPaq PocketPCs) into a sophisticated and easy-to-use wireless home control and automation device, and Kameleon™, a revolutionary display technology that provides ease of use by illuminating only active keys needed to control each entertainment device.

Distribution and Customers

Universal's products are sold to a wide variety of customers in numerous distribution channels. In the United States, Universal principally sells its products and/or licenses its proprietary technology to cable operators, satellite service providers, private label customers and consumer electronics accessory manufacturers and companies in the computing industry for resale under their respective brand names. In addition, Universal sells its wireless control products and licenses its proprietary technologies to OEMs for use in their products. Universal has also licensed certain of its proprietary technology to third parties and its *One For All* brand name to a third party who in turn sells the products directly to certain domestic retailers. Outside of the United States, Universal sells remotes, other wireless control devices, and certain accessories under the *One For All* and certain other brand names to retailers and to other customers under private labels through its international subsidiaries and distributors. Universal also sells its products and/or licenses its proprietary technology to OEMs, cable operators and satellite service providers internationally.

For the year ended December 31, 2003, the Company had sales to one company, Comcast Communications, Inc., that represented more than 10% of Universal's net sales for the year.

Universal provides subscription broadcasters, namely cable operators and satellite service providers both domestically and internationally, with universal wireless control devices and integrated circuits on which Universal's software is embedded, to support the demand associated with the deployment of digital set-top boxes and increased services.

Universal also sells its universal wireless control devices and integrated circuits, on which the Company's software is embedded, to OEMs that manufacture cable converters and satellite receivers for resale with their products.

Universal continues to pursue further penetration of the more traditional consumer electronics/OEM markets. Customers in these markets generally package Universal's wireless control devices for resale with their audio and video home entertainment products (e.g. TVs, DVD and CD players, VCRs, personal digital recorders, etc.). Universal also sells customized chips, which include the Company's software and/or customized software packages, to these customers. Growth in this line of business has been driven by the proliferation and increasing complexity of home entertainment equipment, emerging digital technology, the increase in multimedia and interactive internet applications, and the increase in the number of OEMs. Additionally, Universal supplies its Nevo technology, an embedded system software for home control, to OEM's in the computing space.

Universal continues to place significant emphasis on expanding its sales and marketing efforts to subscription broadcasters and OEMs in Asia, Latin America and Europe. Universal will continue to add new sales people, as required, to support

Table of Contents

anticipated sales growth in these markets over the next few years. In addition, Universal continues to improve on its development processes to increase cost savings and to provide more timely delivery of its products to its customers.

In the international markets, *One For All* brand name products accounted for 30.4%, 26.3%, and 21.2% of Universal's sales for the years ended December 31, 2003, 2002, and 2001, respectively. Throughout 2003, Universal continued its retail sales and marketing efforts in Europe, Australia, New Zealand, South Africa, the Middle East, Mexico and selected countries in Asia and Latin America. Universal has seven international subsidiaries, Universal Electronics B.V., established in The Netherlands, One For All GmbH and Ultra Control Consumer Electronics GmbH, both established in Germany, One for All Iberia S.L., established in Spain, One For All (UK) Ltd., established in the United Kingdom, One For All Argentina S.R.L., established in Argentina, and One For All France S.A.S., established in France. Universal uses third party distributors in countries where it does not have subsidiaries.

Consumer Service and Support

Universal provides domestic and international consumer support to its various universal remote control marketers, including manufacturers, cable and satellite providers, retail distributors, and audio and video original equipment manufacturers through its automated "InterVoice" system. Live agent help is also available through certain programs. Universal continues to review its programs to determine their value in enhancing and improving the sales of its products. As a result of this continued review, some or all of these programs may be modified or discontinued in the future and new programs may be added. In March 2003, the Company's largest consumer service and support customer notified the Company that as a result of a merger, it would conduct all of its consumer service and support activities internally and ceased using the Company's services during the second quarter of 2003. Revenues from this customer for consumer service and support amounted to \$0.8 million, \$3.4 million, and \$1.6 million in 2003, 2002 and 2001, respectively.

Raw Materials and Dependence on Suppliers

Universal utilizes third-party manufacturers and suppliers in Asia, Mexico and the United States to produce its wireless control products. The number of third party manufacturers or suppliers that provided Universal in excess of 10% of its manufacturing services and/or components was three, two, and three for 2003, 2002 and 2001, respectively. In 2003, Jetta, Computime, and Samsung collectively represented 45% of Universal's manufacturing services and components. In 2002, Jetta and Samsung collectively represented 27% of Universal's manufacturing services and components. In 2001, Philips, Jetta and Samsung collectively represented 43% of Universal's manufacturing services and components. As in the past, Universal continues to evaluate alternative and additional third-party manufacturers and sources of supply.

During 2003, Universal continued to diversify its suppliers and maintained duplicate tooling for certain of its products. This has allowed Universal to stabilize its source for products and negotiate more favorable terms with its suppliers. In addition, where it can, Universal uses standard parts and components, which are available from multiple sources. To continue to reduce its dependence on suppliers, Universal continues to seek additional sources of integrated circuit chips to help reduce the potential for manufacturing and shipping delays. In addition, Universal has introduced flash microcontroller technology to its products. Flash microcontrollers have shorter lead times than standard microcontrollers and may be reprogrammed if necessary, thus reducing excess or obsolete inventory exposure.

Patents, Trademarks and Copyrights

Universal owns a number of United States and foreign patents relating to its products and technology, and has filed domestic and foreign applications for other patents that are pending. Universal had a total of 101 issued and pending patents at the end of 2003, an increase from 80 at the end of 2002. The life of Universal's patents ranges from approximately four to eighteen years. Universal has also obtained copyright registration and claims copyright protection for certain of its proprietary software and libraries of IR codes. Additionally, the names of most of Universal's products are registered or are being registered as trademarks in the United States Patent and Trademark Office and in most of the other countries in which such products are sold. These registrations are valid for a variety of terms ranging up to 20 years and may be renewed as long as the trademarks continue to be used and are deemed by management to be important to Universal's operations. While Universal follows the practice of obtaining patent, copyright and trademark registrations on new developments whenever advisable, in certain cases, Universal has elected common law trade secret protection in lieu of obtaining such protection.

Seasonality

[Table of Contents](#)

Historically, Universal's 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. This pattern is expected to continue and the impact will fluctuate as the sales mix varies between retail and technology.

See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA- Supplementary Data" for further details regarding the quarterly results of the Company.

Competition

Universal's principal competitors in the international retail and private label markets for universal wireless controls include Philips, Thomson, and Gemini as well as various manufacturers of wireless controls in Asia. Universal's primary competitors in the OEM market are the original equipment manufacturers themselves and wireless control manufacturers in Asia. In the subscription broadcasting business line, Universal competes with various distributors in the United States and several of the larger set-top manufacturers, including Motorola and Scientific-Atlanta. Universal competes in its markets on the basis of product quality, product features, price, intellectual property, and customer and consumer support. Universal believes that it will need to continue to introduce new and innovative products to remain competitive and to obtain and retain competent personnel to successfully accomplish its future objectives. Certain of Universal's competitors have significantly larger financial, technical, marketing and manufacturing resources than the Company, and there can be no assurance that Universal will remain competitive in the future.

Engineering, Research and Development

During 2003, Universal's engineering efforts focused on modifying existing products and technologies to improve features, to lower costs, and to develop measures to protect the Company's proprietary technology and general know-how. Universal continues to regularly update its library of IR codes to include IR codes for new features and devices introduced worldwide. Universal's library contains over 171,000 IR data codes, an increase from just over 143,000 data codes in 2002. Universal also continues to explore ways to improve its software to pre-program more codes into its memory chips and to simplify the upgrading of its wireless control products.

Also during 2003, Universal's product development efforts focused on new and innovative wireless control and interface solutions resulting in the launch of new retail SKUs based on the Kameleon interface technology. Universal also broadened its product portfolio with solutions that address emerging technology sectors like home media distribution and home automation. These advanced technology development efforts focused on both industry-based standards as well as specific universal extensions that maximize the end user experience utilizing a set of heterogeneous protocols and technologies that exist in the modern home today. This environment is driving the need for simplification of these new protocols and devices, since they were originally engineered and targeted towards the enterprise customer. The Company created the Nevo product offerings to simplify and manage the end user's experience interacting with devices in the home — devices that may span over a decade, including traditional IR based devices, and the more complex TCP/IP consumer electronic devices utilizing both open and proprietary protocols.

Universal also developed technologies aimed at unifying traditional technologies that are encountered within a home, and emerging technologies. This allows consumers to deploy Universal Electronics based solutions ranging from a simple IR based audio-visual stack to a modern digital media management experience allowing access to digital content such as music, pictures and videos.

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

The Company's expenditures on engineering, research and development were:

(in millions):	2003	2002	2001
Research and Development	\$4.7	\$4.5	\$4.2
Engineering	1.7	1.4	1.4
Total Engineering, Research and Development	\$6.4	\$5.9	\$5.6

Environmental Matters

Table of Contents

We believe we have materially complied with all currently existing federal, state and local statutes and regulations regarding environmental standards and occupational safety and health matters to which we are subject. During the years ended December 31, 2003, 2002 and 2001, the amounts incurred in complying with federal, state and local statutes and regulations pertaining to environmental standards and occupational safety and health laws and regulations did not materially affect our earnings or financial condition. However, future events, such as changes in existing laws and regulations or enforcement policies, may give rise to additional compliance costs that could have a material adverse effect upon our capital expenditures, earnings or financial condition.

The Company is committed to developing an infrastructure to support the control of hazardous substances. A fully integrated system with controls in product design and purchasing is being implemented internally.

Universal continues to work closely with its contract manufacturing base to move them toward becoming Sony Green Partners and already works with one fully certified Green Partner. Our goal is to provide a choice of two options to our customers: Green and Non-Green. The Green option will be fully compliant with the RoHS (Restriction on Hazardous Substances) requirements defined by the EEC with tolerances defined at the component level. All Green production processes will be segregated physically from standard production processes to eliminate the possibility of contamination. The Company will offer subsets of the full Green requirement to accommodate the broad spectrum of customer needs.

Employees

At December 31, 2003, Universal employed approximately 259 employees, of whom 82 were in engineering, research and development, 56 in sales and marketing, 49 in consumer service and support, 28 in operations and warehousing and 44 in executive and administrative staff. None of Universal's employees is subject to a collective bargaining agreement or is represented by a union. Universal considers its employee relations to be good.

International Operations

Financial information relating to Universal's international operations for the years ended December 31, 2003, 2002 and 2001 is included in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-Notes to Consolidated Financial Statements-Note 17".

Available Information

Universal's Internet address is www.uei.com. Universal makes available through its Internet website its annual report on Form 10-K, its quarterly reports on Form 10-Q, its current reports on Form 8-K and any amendments thereto as soon as reasonably practicable after it electronically files such reports with the Securities and Exchange Commission. Investors can also obtain copies of our SEC filings from the SEC website at www.sec.gov.

ITEM 2. PROPERTIES

Universal's headquarters are located in Cypress, California. Universal utilizes the following office and warehouse facilities:

<u>Location</u>	<u>Purpose or Use</u>	<u>Square Feet</u>	<u>Status</u>
Cypress, California	Corporate headquarters, warehouse, engineering, research and development	30,768	Leased, expires December 31, 2005
Twinsburg, Ohio	Consumer and customer call center	8,509	Leased, expires July 31, 2005
Enschede, Netherlands	International headquarters and call center	18,292	Leased, expires September 1, 2007

In addition to the facilities listed above, Universal leases space in various international locations, primarily for use as sales offices. See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 12" for additional information regarding Universal's obligations under leases.

ITEM 3. LEGAL PROCEEDINGS

On November 15, 2000, the Company filed suit against Universal Remote Control Inc. alleging that Universal Remote has infringed certain of the Company's patents (Universal Electronics Inc. v. Universal Remote Control, Inc., Civil Action No. SACV 00- 1125 AHS (EEx)). The Company is seeking damages and injunctive relief. Universal Remote has answered the complaint and has denied infringement, and the Company is engaged in discovery.

On November 19, 2002, the Company filed suit against Intrigue Technologies, Inc., which was amended on February 13, 2004, alleging that Intrigue Technologies has infringed certain of the Company's patents (Universal Electronics Inc. v. Intrigue Technologies, Inc., Civil Action No. SA02-1089GLT (ANX)). Intrigue Technologies has answered this complaint denying infringement. In addition, Intrigue Technologies has filed suit against the Company (Intrigue Technologies, Inc. v. Universal Electronics Inc., Case Number A3-02-124) seeking a judgment to declare certain of the Company's patents invalid, unenforceable and void and also alleging that we have violated federal antitrust laws with respect to our patent enforcement. The Company has not yet answered this complaint; however, it intends to do so denying all of Intrigue Technologies' material allegations. As of December 31 2003 and 2002, a loss contingency has not been recorded since management believes an unfavorable outcome for this matter is not probable.

On January 7, 2004, James D. Lyon, Trustee for the bankruptcy estate of Computrex, Inc. filed an action against the Company alleging that the Company received preferential treatment in connection with certain payments made on the Company's behalf by Computrex. (Computrex, Inc. (Debtor) and James D. Lyon (Trustee for the bankruptcy estate of Computrex, Inc.) v. Universal Electronics Inc., Case No. 01-53755 Chapter 7, United States Bankruptcy Court, Eastern District of Kentucky, Lexington Division). The Company has not yet answered this complaint and will not need to do so as this action is currently in abeyance while the trustee appeals an adverse ruling against it in another matter having facts similar to those in the trustee's action against the Company. If and when the Company is to answer, it intends to deny all of the material allegations made against the Company and defend this matter vigorously. . As of December 31 2003 and 2002, a loss contingency has not been recorded since management believes an unfavorable outcome for this matter is not probable.

There are no other material pending legal proceedings, other than litigation that is incidental to the ordinary course of our business, to which we or any of our subsidiaries is a party or of which our respective property is the subject. In addition, as is typical in our industry and to the nature and kind of business in which we are engaged, from time to time, various claims, charges and litigation are asserted or commenced by third parties against us or by us against third parties arising from or related to product liability, infringement of patent or other intellectual property rights, breach of warranty, contractual relations, or employee relations. The amounts claimed may be substantial but may not bear any reasonable relationship to the merits of the claims or the extent of any real risk of court awards assessed against us or in our favor. In our opinion, final judgments, if any, which might be rendered against us in potential or pending litigation would not have a material adverse effect on our financial condition or results of operations. Moreover, we believe that our products do not infringe any third parties' patent or other intellectual property rights.

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

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

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

Executive Officers of the Registrant*

The following table sets forth certain information concerning the executive officers of Universal as of February 27, 2004:

Name	Age	Position
Paul D. Arling	41	Chairman of the Board and Chief Executive Officer
Robert P. Lilleness	37	President and Chief Operating Officer
Bernard J. Pitz	43	Senior Vice President, Chief Financial Officer, and Treasurer
J. Stewart Ames	45	Senior Vice President of Sales, Product Development and Marketing
Paul J.M. Bennett	48	Senior Vice President, Managing Director, Europe
Richard A. Firehammer, Jr.	46	Senior Vice President, General Counsel and Secretary

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

Table of Contents

Paul D. Arling is Chairman and Chief Executive Officer of Universal Electronics. He joined the Company in May 1996 as Chief Financial Officer and was named to the Company's Board of Directors in August of 1996. He was appointed President and COO in September 1998, was promoted to Chief Executive Officer in October of 2000 and appointed as Chairman in July 2001. From 1993 through May 1996, he served in various capacities at LESCO, Inc. (a manufacturer and distributor of professional turf care products). Prior to LESCO, he worked for Imperial Wallcoverings (a manufacturer and distributor of wallcovering products) as Director of Planning, and The Michael Allen Company (a strategic management consulting company) where he was employed as a management consultant. He obtained a BS degree from the University of Pennsylvania and an MBA from the Wharton School of the University of Pennsylvania.

Robert P. Lilleness joined Universal Electronics as President and Chief Operating Officer in May 2001. Prior to joining the Company, he served as Vice President of Product Management and Marketing at Trilogy Software Inc. from June 1998 to May 2001 (a privately held company that develops and markets e-business software). Before Trilogy, he worked for Microsoft Corporation (NASDAQ: MSFT) from February 1993 to May 1998, in a number of marketing, management and operational roles. Prior to working for Microsoft, he served as an auditor for Ernst and Young in Zurich, Switzerland. He received his undergraduate degree from the University of Puget Sound and holds an MBA from Harvard University.

Bernard J. Pitz joined Universal Electronics as Senior Vice President and Chief Financial Officer and Treasurer in November 2003. Prior to joining the Company, he served as Vice President of Finance for the worldwide frequency control business at Corning Incorporated. Prior to Corning, he spent 15 years at Motorola beginning in corporate audit and then progressing into positions of increasing responsibility in accounting and finance, including joint venture development in Latin America. While living in Beijing, China he served as the Senior Division Controller of the Greater China Cellular Subscriber Division. He started his career as an auditor for Touche Ross & Co. in Chicago, Illinois. He received his undergraduate degree in accounting from Northern Illinois University and has passed the CPA examination. He holds an MBA from the University of Chicago Graduate School of Business where he studied at both the Chicago campus and in Barcelona Spain.

J. Stewart Ames has been Senior Vice President of Sales and Marketing of Universal Electronics since January 1999. Prior to this position at Universal Electronics, he served as the Company's Vice President of Cable Sales from June 1987 to January 1999, directing the United States based sales force in selling universal wireless control products to multiple system operators. Before joining Universal Electronics in January 1991, he worked for three years as Sales Manager for Calmold, (a plastic injection molder in Southern California), managing its sales force and selling injection molding capacity for three factories to a variety of OEM businesses. Prior to Calmold, he held sales and sales management positions at Spirol International, (a manufacturer of specialty metal fasteners, assembly equipment and metal stampings), over a period of seven years. He received a BS Degree in Biology from Bates College in Lewiston, Maine.

Paul J.M. Bennett has been Managing Director and a Senior Vice President, Managing Director, Europe of Universal Electronics since July 1996. Prior to joining the Company, he held various positions at Philips Consumer Electronics over a seven year period, first as Product Marketing Manager for the Accessories Product Group, initially set up to support Philip's Audio division, and then as head of that division. He was educated at Terenure College and the College of Commerce in Dublin and completed his studies at University College, where he gained a Bachelor of Commerce Degree.

Richard A. Firehammer, Jr., Esq. has been a Senior Vice President of Universal Electronics since February 1999. He has been the Company's General Counsel since October 1993 and Secretary since February 1994. He was the Company's Vice President from May 1997 until August 1998. He was outside counsel to the Company from September 1998 until being rehired in February 1999. From November 1992 to September 1993, he was associated with the Chicago, Illinois law firm, Shefsky & Froelich, Ltd. From 1987 to 1992, he was with the law firm, Vedder, Price, Kaufman & Kammholz in Chicago, Illinois. He is admitted to the Bars in the State of Illinois and the State of Ohio. He is also a certified public accountant. He received a BS degree from Indiana University and a JD degree from Whittier College School of Law.

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

Universal's common stock trades on the National Market of The NASDAQ Stock Market under the symbol UEIC.

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

	2003		2002	
	High	Low	High	Low
First Quarter	\$10.7500	\$ 9.0100	\$16.7000	\$13.9300
Second Quarter	14.2500	9.1500	18.2300	14.1500
Third Quarter	14.0000	11.0000	15.0800	8.8000
Fourth Quarter	13.8400	11.3000	10.4700	6.7300

Stockholders of record on February 27, 2004 numbered approximately 119. We have never paid cash dividends on our common stock, nor do we intend to pay any cash dividends on our common stock in the foreseeable future. We intend to retain our earnings, if any, for the future operation and expansion of our business. In addition, the terms of our revolving credit facility limit our ability to pay cash dividends on our common stock. See "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS-Liquidity and Capital Resources" and "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-Notes to Consolidated Financial Statements-Note 7."

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

	Year Ended December 31,				
	2003	2002	2001	2000	1999
	(in thousands, except per share data)				
Net sales	\$ 120,468	\$ 103,891	\$ 119,030	\$ 124,740	\$ 105,091
Operating income	\$ 8,573	\$ 6,981	\$ 16,009	\$ 18,242	\$ 12,968
Net income	\$ 6,267	\$ 5,939	\$ 11,286	\$ 11,601	\$ 7,740
Earnings per share:					
Basic	\$ 0.46	\$ 0.43	\$ 0.82	\$ 0.84	\$ 0.58
Diluted	\$ 0.45	\$ 0.42	\$ 0.78	\$ 0.78	\$ 0.55
Shares used in calculating earnings per share:					
Basic	13,703	13,790	13,844	13,743	13,312
Diluted	14,007	14,163	14,523	14,941	14,126
Gross margin	38.4%	40.1%	41.2%	41.3%	41.3%
Operating margin	7.1%	6.7%	13.4%	14.6%	12.4%
Selling, general, administrative, research and development expenses as a % of sales	31.3%	33.4%	27.8%	26.7%	28.9%
Net income as a % of sales	5.2%	5.7%	9.5%	9.3%	7.4%
Return on average assets	5.5%	6.1%	12.0%	13.9%	11.5%
Working capital	\$ 82,191	\$ 71,457	\$ 67,422	\$ 58,323	\$ 45,506
Ratio of current assets to current liabilities	3.7	5.3	5.5	3.5	4.0
Total assets	\$ 126,167	\$ 100,016	\$ 94,705	\$ 93,766	\$ 73,751
Cash and cash equivalents	\$ 58,481	\$ 18,064	\$ 14,170	\$ 9,309	\$ 13,286
Short-term investments	—	\$ 22,500	\$ 20,100	\$ 11,500	—
Long-term debt	—	\$ 41	\$ 104	\$ 163	\$ 240
Stockholders' equity	\$ 95,171	\$ 83,237	\$ 79,702	\$ 70,353	\$ 58,511
Book value per share (a)	\$ 6.89	\$ 6.17	\$ 5.78	\$ 5.10	\$ 4.28
Ratio of liabilities to liabilities and stockholders' equity	24.6%	16.8%	15.8%	25.0%	20.7%

(a) Book value per share is defined as stockholders' equity divided by common shares outstanding.

A factor that affected the comparability of information between 2002 and 2001 was our implementation of Statement of Financial Accounting Standards ("SFAS") No. 142 on January 1, 2002, which requires that goodwill no longer be amortized.

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

Universal has developed a broad line of easy-to-use, pre-programmed universal wireless control products that are marketed principally for home video and audio entertainment equipment through various channels of distribution, including international retail, private label, OEMs, and cable and satellite service providers and to companies in the computing industry. Universal believes that its universal wireless controls can operate virtually all infrared remote ("IR") controlled TVs, VCRs, DVD players, cable converters, CD players, audio components and satellite receivers, as well as most other infrared remote controlled devices worldwide.

Beginning in 1986 and continuing today, Universal has compiled an extensive library of over 171,000 IR codes that cover nearly 141,000 individual device functions and over 2,100 individual consumer electronic equipment brand names. Universal's library is regularly updated with new IR codes used in newly introduced video and audio devices. All such IR codes are captured from the original manufacturer's remote control devices to ensure the accuracy and integrity of the database. Universal's proprietary software and know-how permit IR codes to be compressed before being loaded into its products. This provides significant cost and space efficiencies that enable Universal to include more codes and features in the memory space of the wireless control device than are included in similarly priced products of competitors. Universal has developed a patented technology that provides the capability to easily upgrade the memory of the wireless control device by adding IR codes from its library that were not originally included.

The matters discussed in this Annual Report on Form 10-K should be read in conjunction with the consolidated financial statements provided under Part II, Item 8 of this Annual Report on Form 10-K. Certain statements contained herein may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, as discussed more fully herein. See, "Factors That May Affect Financial Condition and Future Results" in this Form 10-K.

Among the factors that could cause actual results to differ materially from those anticipated in these forward-looking statements are the following: the failure of our markets to continue growing and expanding in the manner we anticipate; the failure of our customers to grow and expand as we anticipate; the effects of natural or other events beyond our control, including the effect a war or terrorist activities may have on the Company or the economy; the economic environment's effect on us and our customers; the growth of, acceptance of and the demand for our products and technologies in various markets and geographical regions, including cable, satellite, consumer electronics, retail and interactive TV and home automation, not materializing as we believe; our inability to add profitable complementary products which are accepted by the marketplace; our inability to continue to maintain our operating costs at acceptable levels through our cost containment efforts; our 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 2004 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.

In addition, more information about risk factors that could affect our business and financial results is included in the section entitled "Factors That May Affect Financial Condition and Future Results" in this Form 10-K.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates

Table of Contents

and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, allowance for sales returns and doubtful accounts, inventories, valuation of long-lived assets, intangible assets and goodwill, and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue recognition. We recognize revenue on the sale of products when title and risk of loss have passed to the customer, there is pervasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectibility is reasonably assured. For the majority of our sales, recognition occurs when products are shipped. We also license our intellectual property (including our patented technologies) trade secrets, trademarks, and database of infrared codes. We record license revenue when our customers ship products incorporating our intellectual property, provided collection of such revenue is reasonably assured. In addition, we generate service revenues as a result of providing consumer support programs, through our call centers, to some of our customers. These service revenues are recognized when earned. We record a provision for estimated sales returns and allowances on product sales in the same period as the related revenues are recorded. These estimates are based on historical sales returns, analysis of credit memo data and other known factors. If the data we use to calculate these estimates do not properly estimate returns and sales allowances, revenue could be misstated.

Accounts receivable. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We specifically analyze accounts receivables and historical bad debts, customer credit, current economic trends and changes in customer payment trends when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventories. Inventories consist of wireless control devices, including universal remote controls, wireless keyboards, antennas, and related component parts (including integrated circuits) and are valued at the lower of cost or market. Cost is determined using the first-in, first-out method. We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Valuation of long-lived assets and other intangible assets. We assess the impairment of long-lived assets and other intangible assets whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Factors considered important which could trigger an impairment review include the following: (1) significant underperformance relative to historical or projected future operating results; (2) significant changes in the manner of our use of the assets or strategy for our overall business; (3) significant negative industry or economic trends; (4) significant decline in our stock price for a sustained period; and (5) a significant variance between our market capitalization relative to net book value. When we determine that the carrying value may not be recoverable based upon the existence of one or more of the above indicators of impairment, and based on the carrying value of the asset being less than the undiscounted cash flows, we measure an impairment based on the projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. In assessing the recoverability, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges not previously recorded.

Goodwill. In accordance with SFAS No. 142, we ceased amortization on approximately \$3.0 million of net unamortized goodwill beginning January 1, 2002. We recorded approximately \$565,000 of amortization during 2001 and would have recorded approximately \$565,000 of amortization during both 2003 and 2002. We performed an initial impairment review of our goodwill on January 1, 2002; conducted annual impairment reviews as of

[Table of Contents](#)

December 31, 2003 and 2002 and will perform an annual review in subsequent years. In performing the initial impairment review, we identified our reporting units and determined the carrying value of each reporting unit by assigning assets and liabilities, including the existing goodwill, to those reporting units as of January 1, 2002. We then determined the fair value of each reporting unit using the present value of expected future cash flows and compared it to the reporting unit's carrying amount. Based on this analysis, we determined that each reporting unit's fair value exceeded its carrying amount, and therefore concluded that there was no indication of a transitional impairment loss.

Income Taxes. As part of the process of preparing our consolidated financial statements, we estimate our income taxes in each of the taxing jurisdictions in which we operate. This process involves estimating our actual current tax expense together with assessing any temporary differences resulting from the different treatment of certain items, such as the timing for recognizing expenses, for tax and financial reporting purposes. These differences may result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We are required to assess the likelihood that our deferred tax assets, which include net operating loss carryforwards and temporary differences that are expected to be deductible in future years, will be recoverable from future taxable income or other tax planning strategies. If recovery is not likely, we must provide a valuation allowance based on our estimates of future taxable income in the various taxing jurisdictions, and the amount of deferred taxes that are ultimately realizable. The provision for tax liabilities involves evaluations and judgments of uncertainties in the interpretation of complex tax regulations by various taxing authorities. In situations involving tax related uncertainties, we provide for deferred tax liabilities when we believe such liabilities are reasonably expected to occur. Actual results could differ from our estimates.

Results of Operations

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

	Year Ended December 31,		
	2003	2002	2001
Net sales	100.0%	100.00%	100.00%
Cost of sales	61.6	59.9	58.8
Gross profit	38.4	40.1	41.2
Research and development expenses	3.9	4.3	3.5
Selling, general and administrative expenses	27.4	29.1	24.2
Operating income	7.1	6.7	13.4
Interest income	(0.5)	(0.6)	(0.8)
Other income, net	(0.3)	(0.2)	(0.2)
Income before income taxes	7.9	7.5	14.4
Provision for income taxes	2.7	1.8	4.9
Net income	5.2%	5.7%	9.5%

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Net sales for the twelve months ended December 31, 2003 were \$120.5 million, an increase of 16% over the net sales of \$103.9 million for the same period last year. Net income for 2003 was \$6.3 million or \$0.46 per share (basic) and \$0.45 per share (diluted) compared to \$5.9 million or \$0.43 per share (basic) and \$0.42 per share (diluted) for 2002.

Net sales in our technology lines (subscription broadcasting, OEM and private label) increased by \$3.8 million, or 5.1%, to \$79.0 million in 2003 from \$75.2 million in 2002. Net sales to subscription broadcasting service providers and OEMs increased by \$3.6 million, or 5.6%, to \$68.0 million in 2003 from \$64.4 million in 2002. Direct and OEM sales to subscription broadcasting service providers in the United States and in Europe, where additional geographic penetration was achieved, accounted for a significant portion of the increase. Private label sales increased by \$2.1 million, or 29.9%, to \$9.3 million in 2003 from \$7.2 million in 2002 due to the success of the Kameleon product line which was introduced in late 2002. Net sales in the technology lines were approximately 65.6% of net sales in 2003 compared to 72.4% in 2002.

Net sales from the retail lines (*One For All*® international retail and direct import) increased \$12.8 million, or 44.5%, to \$41.5 million in 2003 from \$28.6 million in 2002. Of this increase, the *One For All*® international retail sales increased \$9.3 million, or 34.2%, to \$36.6 million in 2003 from \$27.3 million in 2002. Reasons for the increase included Sky branded retail products sold in the U.K., Kameleon sales (particularly in Germany and Spain) and appreciation of the Euro relative to the U.S. dollar. United States direct import licensing and product revenues increased by \$3.4 million or 248.8% to \$4.8 million in 2003 from \$1.4 million in 2002 due to the success of the Kameleon product line which was introduced into this channel in early 2003. Net sales in the retail lines accounted for approximately 34.4% of total 2003 net sales compared to 27.6% in 2002.

Gross profit was \$46.3 million or 38.4% of net sales in 2003 as compared to \$41.7 million or 40.1% of net sales in 2002. Gross profit as a percent of sales in 2003 was lower primarily due to price pressure in the subscription broadcasting service line, which resulted from consolidation within the industry. Other factors contributing to the decline in the gross profit percentage included changes in mix and inventory write-downs which included \$0.4 million related to the Mosaic product line in the fourth quarter of 2003.

Research and development expenses increased to \$4.7 million in 2003 from \$4.5 million in 2002, primarily due to general cost increases. Resources have been realigned from core technology to advanced technology products, thus allowing a greater investment in future products while holding overall expenses relatively constant. Total research and development expenditures are expected to increase more significantly in 2004.

Selling, general and administrative expenses increased to \$33.0 million in 2003 from \$30.2 million in 2002. Of this increase, \$1.3 million was attributable to increased employee bonuses. Other increases were related to the appreciation of the Euro relative to the U.S. dollar and costs associated with changes in staffing such as, severance, recruiting, and relocation. Selling, general and administrative expenses are expected to increase in 2004 as a result of the cost of compliance with the Sarbanes-Oxley requirements.

Other income, net increased to \$0.3 million in 2003 from \$0.2 million in 2002. The increase was attributable to an increase in the gain on foreign currency transactions of \$0.3 million offset by a patent settlement of \$0.2 million that occurred in 2002.

Income tax expense increased to \$3.2 million in 2003 from \$1.9 million in 2002. The increase in the effective tax rate to 34% in 2003 from 24% in 2002 is primarily related to a decrease in research and development credits in 2003 as compared to 2002.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Net sales for the twelve months ended December 31, 2002 were \$103.9 million, a decrease of 12.7% over the net sales of \$119.0 million for the same period last year. Net income for 2002 was \$5.9 million or \$0.43 per share (basic) and \$0.42 per share (diluted) compared to \$11.3 million or \$0.82 per share (basic) and \$0.78 per share (diluted) for 2001.

Net sales in our technology lines (subscription broadcasting, OEM and private label) in 2002 decreased by \$16.6 million, or 18.1%, to \$75.2 million from \$91.8 million in 2001. Sales to subscription broadcasting service providers and OEMs decreased by \$17.2 million, or 21.0%, from \$81.6 million in 2001 to \$64.4 million in 2002. Reductions in capital expenditures by our major subscription broadcasting and cable set top box OEM customers resulted in reduced digital set top box deployment during 2002 and consequently, reduced orders from these customers. Private label sales decreased by \$0.5 million, or 7.1%, from \$7.7 million in 2001 to \$7.2 million in 2002 due to decreased consumer demand for these products in 2002. Net sales in our technology lines were approximately 72.4% of net sales in 2002 compared to 77.1% in 2001.

Net sales from the retail lines (*One For All*® international retail and direct import) increased \$1.4 million, or 5.3%, from \$27.2 million in 2001 to \$28.6 million in 2002. Of this increase, the *One For All*® international retail sales increased \$2.1 million, or 8.2%, from \$25.2 million in 2001 to \$27.3 million in 2002 (due primarily to increased demand from retailers in the UK, Germany and Spain) while our domestic direct import licensing and product revenues decreased by \$0.6 million or 31.6% from \$2.0 million in 2001 to \$1.4 million in 2002 due to less demand. Net sales from the retail lines accounted for approximately 27.6% of total 2002 net sales compared to 22.9% in 2001.

Gross profit was \$41.7 million or 40.1% of net sales in 2002 as compared to \$49.1 million or 41.2% of net sales in 2001. Gross margins in 2002 were lower due primarily to increased use of air freight-in to meet customer demands and higher provisions for inventory obsolescence.

Research and development expenses increased from \$4.2 million in 2001 to \$4.5 million in 2002, primarily due to the development of our Nevo and Kameleon technology.

Selling, general and administrative expenses increased to \$34.7 million in 2002, compared to \$33.1 million in 2001. This increase was attributable to increased delivery and freight expenses as well as higher professional service fees for tax planning projects.

Delivery and freight expenses increased \$1.1 million, from \$2.2 million in 2001 to \$3.3 million in 2002, as a result of increased air shipments as well as increased fees and surcharges as a result of the port shutdowns in the western United States. Professional service fees increased from \$1.0 million in 2001 to \$1.5 million in 2002 due to an increase in fees for various tax planning projects. As a percentage of net sales, selling, general and administrative expense was 33.3% in 2002 compared to 27.8% in 2001.

Interest income decreased by \$392,000 in 2002 to \$595,000 as compared to \$987,000 in 2001 due to a decrease in interest earned on cash balances and short-term investments in 2002.

Other income increased by \$92,000 to \$239,000 in 2002 compared to \$147,000 in 2001 primarily due to the settlement of patent infringement suits totaling \$163,000.

We recorded income tax expense of \$1.9 million for 2002 compared to \$5.9 million for 2001. The decrease is a result of lower pretax income and a reduction in tax expense of approximately \$0.5 million due to the benefit recorded for research and development credits. Our effective tax rate was reduced from 34% in 2001 to 24% in 2002.

Liquidity and Capital Resources

Our principal sources of funds are from operations and bank credit facilities. Cash provided by operating activities for 2003 was \$19.2 million as compared to \$16.2 million in 2002. The increase in cash flow is primarily due to an increase in accounts payable.

In September, 2003, we terminated our \$15,000,000 unsecured revolving credit agreement with Bank of America National Trust and Savings Association. On September 15, 2003, we entered into a three-year \$15,000,000 unsecured revolving credit agreement (the "Agreement") with Comerica Bank ("Comerica"). Under the Agreement with Comerica, the interest payable is variable and is based on either the bank's cost of funds or the LIBOR rate plus a fixed margin of 1.25%. The interest rate in effect as of December 31, 2003 using the LIBOR Rate option plus a fixed margin of 1.25% was 2.37%. We pay a commitment fee ranging from zero to a maximum rate of 1/4 of 1% per year on the unused portion of the credit line depending on the amount of cash investment retained with Comerica during each quarter. Under the terms of this Agreement, dividend payments are allowed up to 100% of net income of the prior fiscal year period to be paid within 90 days of such prior year, and we are subject to certain financial covenants related to the Company's net worth, quick ratio, and net income. We have authority under this credit facility to acquire up to 1,500,000 shares of our common stock in market purchases. Between the date of execution of the credit agreement and December 31, 2003, 45,736 shares of our common stock have been purchased. Amounts available for borrowing under this credit facility are reduced by the outstanding balance of import letters of credit. As of December 31, 2003, we had no amounts outstanding under this credit facility and no outstanding import letters of credit. Furthermore, as of December 31, 2003, we are in compliance with all financial covenants required by the agreement.

In addition to the 84,437 shares of our common stock purchased during 2003 at a cost of \$963,168, we purchased 584,845 and 301,600 shares of common stock in open market purchases in 2002 and 2001, respectively, at a cost of \$5,273,611 and \$4,428,771. We hold shares purchased on the open market as treasury stock, and they are available for reissue. Presently, except for using a small number of these treasury shares to compensate our outside board members, we have no plans to distribute these shares, although we may change these plans if necessary to fulfill our on-going business objectives.

During 2003, we received proceeds of approximately \$3,343,000 from the exercise of stock options granted to our employees, as compared to approximately \$1,334,000 and \$1,750,000 during 2002 and 2001, respectively.

Capital expenditures in 2003, 2002, and 2001 were \$2.5 million, \$2.6 million and \$2.1 million, respectively. Annual capital expenditures relate primarily to acquiring product tooling each year.

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

Historically, our working capital needs have typically been greatest during the third and fourth quarters when accounts receivable and inventories increase in connection with the fourth quarter holiday selling season. At December 31, 2003, we had \$82.2 million of working capital as compared to \$71.5 at December 31, 2002. The increase in working capital during these periods is principally due to increases in cash.

The following summarizes our obligations at December 31, 2003 and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

[Table of Contents](#)

December 31, 2003 (In thousands) Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 — 3 years	4 — 5 years	After 5 years
Long-Term Debt	\$ —	\$ —	\$ —	\$ —	\$—
Capital Lease Obligations	—	—	—	—	—
Operating Lease Obligations	3,357	1,408	1,552	367	29
Purchase Obligations	—	—	—	—	—
Other Obligations	—	—	—	—	—
Total	\$3,357	\$1,408	\$1,552	\$367	\$29

The Company has bank guarantees totaling approximately \$510,000 that provide for payment by the bank to the Company's suppliers in the event of non-payment for transactions in the ordinary course of business.

See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA- Notes to Consolidated Financial Statements-Note 18" for additional information regarding related party transactions.

It is our policy to carefully monitor the state of our business, cash requirements and capital structure. We believe that funds generated from our operations and available from our borrowing facility will be sufficient to fund current business operations as well as anticipated growth at least through the end of 2004; however, there can be no assurance that this will occur.

New Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45 (“FIN No. 45”), “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” FIN No. 45 expands on the accounting guidance of Statements Nos. 5, 57, and 107 and incorporates without change the provisions of FASB Interpretation No. 34, which is being superseded. FIN No. 45 affects leasing transactions involving residual guarantees, vendor and manufacturer guarantees, and tax and environmental indemnities. All such guarantees must be disclosed in the notes to the financial statements starting with the period ending after December 15, 2002. For guarantees issued after December 31, 2002, the fair value of the obligation must be reported on the balance sheet. Existing guarantees will be grandfathered and will not be recognized on the balance sheet. The adoption of FIN No. 45 did not have a material effect on our financial position, results of operations, or cash flows.

In November 2002, the FASB issued Emerging Issues Task Force (“EITF”) Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables.” EITF Issue No. 00-21 addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. EITF Issue No. 00-21 addresses when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF Issue No. 00-21 provides guidance with respect to the effect of certain customer rights due to company nonperformance on the recognition of revenue allocated to delivered units of accounting. EITF Issue No. 00-21 also addresses the impact on the measurement and/or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the company. Finally, EITF Issue No. 00-21 provides guidance with respect to the recognition of the cost of certain deliverables that are excluded from the revenue accounting for an arrangement. The provisions of EITF Issue No. 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF Issue No. 00-21 did not have a material effect on our financial position, results of operations, or cash flows.

In January 2003, the FASB issued FIN 46, “Consolidation of Variable Interest Entities,” an Interpretation of Accounting Research Bulletin No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. The adoption of FIN 46 did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In December 2003, the FASB issued FIN 46R with respect to variable interest entities created before January 31, 2003, which among other things, revised the implementation date to the first fiscal year or interim period ending after March 15, 2004, with the exception of Special Purpose Entities (“SPE”). The consolidation requirements apply to all SPE’s in the first fiscal year or interim period ending after December 15, 2003. The adoption of FIN 46R with respect to SPEs did not have a material effect on our financial position or results of operations, and we do not expect the adoption of the provisions for non-SPEs to have a material impact on the Company’s financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity”. SFAS 150 establishes new standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for certain mandatorily redeemable non-controlling interests. The adoption of SFAS 150 did not have a material effect on the Company’s financial position, results of operations, or cash flows.

In December 2003, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 104, “Revenue Recognition,” which revises or rescinds portions of its previously existing revenue recognition guidance in order to make it consistent with current authoritative accounting and auditing guidance and Securities and Exchange Commission rules and regulations. The adoption of SAB No. 104 did not have a material effect on the Company’s financial position, results of operations or cash flows.

Factors That May Affect Financial Condition And Future Results

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 Annual Report on Form 10-K, or in our other reports filed from time to time with the Securities and Exchange Commission), could affect our actual results and could contribute to or cause our actual consolidated results to differ materially from those expressed in any of our forward-looking statements. The factors included here are not exhaustive. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor can we assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Therefore, forward-looking statements should not be relied upon as a prediction of actual future results.

While we believe that the forward looking statements made in this report are based on reasonable assumptions, the actual outcome of such statements is subject to a number of risks and uncertainties, including the failure of our markets to continue growing and expanding in the manner we anticipated; the failure of our customers to grow and expand as we anticipated; the effects of natural or other events beyond our control, including the effect a war or terrorist activities may have on the Company or the economy; the economic environment’s effect on us and our customers; the growth of, acceptance of and the demand for our products and technologies in various markets and geographical regions, including cable, satellite, consumer electronics, retail and interactive TV and home automation, not materializing as we 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; 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, principally our wireless control products, and certain other components used in our products, from two main sources, each of which provides in excess of ten percent (10%) of our microprocessors for use in our products. We have developed alternative sources of supply for these integrated circuit components. However, 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, or a reduction in their quality or reliability, or a significant increase in prices of components, would have an adverse effect on our business, results of operations and cash flows.

Dependence on Foreign Manufacturing

Third-party manufacturers located in foreign countries manufacture a majority of our wireless controls. 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

Table of Contents

our major manufacturers could adversely affect our business 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 our competitors 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, the growth in our subscription broadcasting and OEM products may outpace the growth in our retail products and consequently, retail seasonality may have less of an effect on our 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 (i) may from time to time 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) may 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 business, operating results, financial condition and cash flows will be materially adversely affected.

We may experience significant fluctuations in future quarterly operating results that may be caused by many 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 business, results of operations or financial condition. As a result, we believe that period-to-period comparisons of its 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 affected.

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.

Demand for Consumer Service and Support

We have continually provided domestic and international consumer service and support to our customers to add overall value and to help differentiate us from our competitors. In March 2003, our largest customer notified us that as a result of a merger, it would conduct all of its consumer service and support activities internally and cease using our services commencing the second quarter of 2003. Consequently, revenue for consumer service and support from this customer will cease. In light of this, we will review our domestic service and support group and determine how to best utilize this service to support our existing customers and to attract new customers. There can be no assurance that we will be able to attract new customers. In addition, in the event other customers decide to cease using this service, we would be unable to offset costs associated with providing this service resulting in a significant adverse affect to our financial condition, results of operations and cash flows.

Table of Contents

Dependence Upon Timely Product Introduction

Our ability to remain competitive in the wireless control products market 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 Company's 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. During 2003, we had sales to one customer that amounted to more than ten percent of our net sales for the year. The future loss of that customer or any other 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.

Patents, Trademarks, and Copyrights

The procedures by which Universal identifies, documents, and files for patent, trademark, and copyright protection are based solely on engineering and management judgment, with no assurance that a specific filing will issue, or if issued, will deliver any lasting value to Universal. There is no assurance that the rights granted under any patent will provide competitive advantages to Universal, or will be adequate to safeguard and maintain Universal's proprietary rights. Moreover, the laws of certain countries in which Universal's products are or may be manufactured or sold may not protect such products and intellectual property rights to the same extent as the U.S. legal system.

Table of Contents

In Universal's opinion, the engineering, production, and marketing skills and experience of its personnel are of equal importance to its market positions as are its intellectual property holdings. Universal further believes that none of its businesses is dependent to any material extent upon any single patent, copyright, trademark, or trade secret.

Some of Universal's products include or use technology and/or components of third-parties. While it may be necessary in the future to seek or renew licenses relating to various aspects of such products, Universal believes that based upon past experience and industry practice, such licenses generally could be obtained on commercially reasonable terms; however, there is no guarantee that such licenses could be obtained at all. Because of technological changes in the wireless and home control industry, current extensive patent coverage, and the rapid rate of issuance of new patents, it is possible certain components of Universal's products and business methods may unknowingly infringe patents of others.

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 assessed against us or in our favor. At the present time, we have filed two lawsuits against third parties. In these actions, we are seeking money damages and injunctive relief for infringement of certain of our intellectual property. In one of these actions, the third party has filed a counterclaim against us seeking a declaration that certain of our patents are invalid and unenforceable. It is our opinion that our patents are valid and enforceable and we intend to defend against such counterclaim vigorously. In addition, there is one action pending against us in which a trustee for the bankruptcy estate of a former service provider has alleged that we received preferential treatment in connection with certain payments made on our behalf by the service provider. We disagree with these allegations and intend to vigorously defend ourselves against these allegations. While it is our opinion that our products do not infringe any third party's patent or other intellectual property rights or that we received preferential treatment, the costs associated with defending or pursuing any such claims or litigation, including the matters discussed in this Annual Report on Form 10-K, 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 sales, operations, earnings, and cash flows due to a variety of factors, including:

- changes in a country's or region's economic or political conditions, including inflation, recession, interest rate fluctuations and actual or anticipated military conflicts;
- currency fluctuations affecting sales, particularly in the British Pound and the Euro, which contribute to variations in sales of products and services in impacted jurisdictions and also affect our reported results expressed in U.S. dollars;
- currency fluctuations affecting costs, particularly the Euro and the Chinese Yuan, which contribute to variances in costs in impacted jurisdictions and also affect our reported results expressed in U.S. dollars
- longer accounts receivable cycles and financial instability among customers;
- trade regulations and procedures and actions affecting production, pricing and marketing of products;
- local labor conditions and regulations;

Table of Contents

- changes in the regulatory or legal environment;
- differing technology standards or customer requirements;
- import, export or other business licensing requirements or requirements relating to making foreign direct investments, which could affect our ability to obtain favorable terms for components or lead to penalties or restrictions;
- difficulties associated with repatriating cash generated or held abroad in a tax-efficient manner and changes in tax laws;
- fluctuations in freight costs and disruptions at important geographic points of exit and entry; and;
- natural and medical disasters.

General Economic Conditions

General economic conditions, both domestic and foreign, have an impact on our business and financial results. The global economy remains uncertain. As a result, individuals and companies may delay or reduce expenditures. Weak global economic conditions and/or softness in the consumer and telecommunications sector could result in lower demand for our products, resulting in lower sales, earnings, and cash flows.

Terrorist acts of war (wherever located around the world) may cause damage or disruption to the Company, our employees, facilities, partners, suppliers, distributors, resellers or customers, which could significantly impact our revenue, costs, and expenses and financial condition. The terrorist attacks that took place in the United States on September 11, 2001 and subsequent terrorist attacks in Iraq and other countries have created many economic and political uncertainties, some of which may materially harm our business and results of operations. The potential for future terrorist attacks, the national and international responses to terrorist attacks or perceived threats to national security, and other actual or potential conflicts or acts of war, including the ongoing military operations in Iraq, have created many economic and political uncertainties that could adversely affect our business, results of operations and stock price in ways that we cannot presently predict. In addition, as a multi-national company, actions against or by the United States may impact our business. We are predominately uninsured for losses and interruptions caused by terrorist acts and acts of war.

Increased Regulation

Increased regulation, such as Sarbanes-Oxley, may require significant expenditures to ensure compliance with documentation and verification requirements.

Outlook

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

We will continue to enhance our leadership position in our core business by developing custom products for our subscription broadcast and OEM customers, growing our capture expertise in existing infrared technology and emerging radio frequency standards, adding to our portfolio of patented or patent pending technologies, and

[Table of Contents](#)

developing new platform products. We are also developing new ways to enhance remote controls and other accessory products.

During 2003, we continued to introduce new products featuring our Kameleon interface technology, a revolutionary display technology that provides ease of use by illuminating only active keys needed to control each entertainment device. We also continued development of our Nevo technology, an embedded solution that transforms an electronic display (such as HP's iPaq Pocket PC) into a sophisticated and easy-to-use wireless home control and automation device. During 2004, we will continue to seek ways to integrate these platform technologies into other forms and devices.

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 relationships by working with customers to understand how to make the consumers interaction with products and services within the home easier and more enjoyable. We intend to invest in new products and technology to meet our customer needs now and into the future.

In 2004, we will evaluate acceptable acquisition targets and strategic partnership opportunities in our core business lines as well as in the networked home marketplace. We caution, however, that no assurance can be made that any suitable acquisition target or partnership opportunity will be identified and, if identified, that a transaction can be consummated. Moreover, if consummated, no assurance can be made that any such acquisition or partnership will profitably add to our operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including interest rate and foreign currency exchange rate fluctuations. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks. The interest payable under our revolving credit agreement with our bank is variable and generally based on either the bank's cost of funds, or the LIBOR rate, and is affected by changes in market interest rates. At December 31, 2003, we had no borrowings on our credit line. The interest rate in effect on the credit line using the bank's cost of funds rate as the base as of December 31, 2003 was 2.37%. At December 31, 2003 we had wholly owned subsidiaries in The Netherlands, 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 local currencies exchange rates relative to the U.S. Dollar 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 entered into no foreign currency forward exchange contracts during the year ended December 31, 2003. However, we did purchase foreign currency exchange contracts with option-based arrangements and contract terms normally lasting less than 6 months, to protect against the adverse effects that exchange-rate fluctuations may have on foreign-currency-denominated trade receivables. 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 December 31, 2003, 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 (Factors That May Affect Financial Condition and Future Results and Quantitative and Qualitative Disclosures About Market Risk), 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Auditors	28
Consolidated Balance Sheets at December 31, 2003 and 2002	29
Consolidated Income Statements for the years ended December 31, 2003, 2002 and 2001	30
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2003, 2002 and 2001	31
Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001	32
Notes to Consolidated Financial Statements	33
Supplementary Data	51
Financial Statement Schedule:	
Schedule for the years ended December 31, 2003, 2002 and 2001 II — Valuation and Qualifying Accounts and Reserves	52

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

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Universal Electronics Inc. and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. Accordingly, the Company ceased amortization of its goodwill as of January 1, 2002.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Orange County, California
March 9, 2004

**UNIVERSAL ELECTRONICS INC.
CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 58,481,227	\$ 18,064,195
Short-term investments	—	22,500,000
Accounts receivable, net	30,500,441	25,876,938
Inventories, net	19,386,277	16,476,206
Prepaid expenses and other current assets	1,108,331	1,122,673
Deferred income taxes	2,543,965	1,919,971
Income tax receivable	1,166,577	2,234,358
	113,186,818	88,194,341
Total current assets		
Equipment, furniture and fixtures, net	3,474,590	3,382,969
Intangible assets, net	3,431,040	3,681,868
Goodwill	3,347,968	2,961,327
Other assets	1,444,541	738,491
Deferred income taxes	1,282,035	1,056,639
	\$126,166,992	\$100,015,635
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 13,753,888	\$ 7,795,220
Accrued income taxes	4,503,926	2,406,893
Accrued compensation	2,923,137	1,253,039
Other accrued expenses	9,815,353	5,282,229
	30,996,304	16,737,381
Total current liabilities		
Note payable	—	41,414
	30,996,304	16,778,795
Total liabilities		
Commitments and contingencies (Notes 12 and 19)		
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; 16,404,485 and 16,001,206 shares issued at December 31, 2003 and 2002, respectively	164,067	160,012
Paid-in capital	75,804,997	71,322,177
Accumulated other comprehensive income (loss)	298,212	(1,740,082)
Retained earnings	36,179,238	29,912,423
Deferred stock-based compensation	(42,012)	(147,044)
	112,404,502	99,507,486
Less cost of common stock in treasury, 2,598,670 and 2,521,313 shares at December 31, 2003 and 2002, respectively	(17,233,814)	(16,270,646)
	95,170,688	83,236,840
Total stockholders' equity		
Total liabilities and stockholders' equity	\$126,166,992	\$100,015,635

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

UNIVERSAL ELECTRONICS INC.
CONSOLIDATED INCOME STATEMENTS

	Year Ended December 31,		
	2003	2002	2001
Net sales	\$120,467,786	\$103,890,728	\$119,029,715
Cost of sales	74,168,285	62,235,709	69,956,570
Gross profit	46,299,501	41,655,019	49,073,145
Research and development expenses	4,699,626	4,450,626	4,200,006
Selling, general and administrative expenses	33,026,393	30,223,709	28,864,598
Operating income	8,573,482	6,980,684	16,008,541
Interest income	583,533	594,879	987,114
Other income, net	338,159	239,243	147,309
Income before income taxes	9,495,174	7,814,806	17,142,964
Provision for income taxes	(3,228,359)	(1,875,553)	(5,857,186)
Net income	\$ 6,266,815	\$ 5,939,253	\$ 11,285,778
Earnings per share:			
Basic	\$ 0.46	\$ 0.43	\$ 0.82
Diluted	\$ 0.45	\$ 0.42	\$ 0.78
Shares used in computing earnings per share:			
Basic	13,702,504	13,789,716	13,844,391
Diluted	14,007,094	14,162,887	14,523,140

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

UNIVERSAL ELECTRONICS INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Issued		Common Stock in Treasury		Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Deferred Stock-Based Compensation	Totals
	Shares	Amount	Shares	Amount					
Balance at December 31, 2000	15,429,584	154,296	(1,647,892)	(6,690,207)	64,937,078	(705,957)	12,687,392	(29,260)	70,353,342
Comprehensive income:									
Net income							11,285,778		11,285,778
Currency translation adjustment						(1,098,713)			(1,098,713)
Total comprehensive income									10,187,065
Shares issued for employee retirement plan	17,617	176			314,558				314,734
Purchase of treasury shares			(301,600)	(4,428,771)					(4,428,771)
Stock options exercised	284,497	2,845			1,746,707				1,749,552
Shares issued to Directors			6,188	27,779	82,239				110,018
Restricted stock grants	(1,770)	(18)		118,378	165,034			(278,833)	4,561
Income tax benefit related to the exercise of non-qualified stock options					1,411,730				1,411,730
Balance at December 31, 2001	15,729,928	157,299	(1,943,304)	(10,972,821)	68,657,346	(1,804,670)	23,973,170	(308,093)	79,702,231
Comprehensive income:									
Net income							5,939,253		5,939,253
Currency translation adjustment						64,588			64,588
Total comprehensive income									6,003,841
Shares issued for employee retirement plan	28,139	281			362,637				362,918
Purchase of treasury shares			(584,845)	(5,273,611)					(5,273,611)
Stock options exercised	243,139	2,432			1,331,818				1,334,250
Shares issued to Directors			6,836					98,030	98,030
Forfeited Restricted stock grants				(24,214)	(38,805)			63,019	—
Income tax benefit related to the exercise of non-qualified stock options					1,009,181				1,009,181
Balance at December 31, 2002	16,001,206	160,012	(2,521,313)	(16,270,646)	71,322,177	(1,740,082)	29,912,423	(147,044)	83,236,840
Comprehensive income:									
Net income							6,266,815		6,266,815
Currency translation adjustment						2,038,294			2,038,294
Total comprehensive income									8,305,109
Shares issued for employee retirement plan	32,807	328			359,858				360,186
Purchase of treasury shares			(84,437)	(963,168)					(963,168)
Stock options exercised	370,472	3,727			3,339,021				3,342,748
Shares issued to Directors			7,080					105,032	105,032
Stock-based compensation					341,382				341,282
Income tax benefit related to the exercise of non-qualified stock options					442,659				442,659
Balance at December 31, 2003	16,404,485	\$164,067	(2,598,670)	\$(17,233,814)	\$75,804,997	\$ 298,212	\$36,179,238	\$ (42,012)	\$95,170,688

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

UNIVERSAL ELECTRONICS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2003	2002	2001
Cash provided by operating activities:			
Net income	\$ 6,266,815	\$ 5,939,253	\$ 11,285,778
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,357,748	3,702,248	4,100,190
Provision for doubtful accounts	76,420	886,332	178,460
Deferred income taxes	(849,390)	698,726	(193,786)
Tax benefit from exercise of stock options	442,659	1,009,181	1,411,730
Employee benefit plan	360,186	362,918	314,734
Non-cash stock-based compensation	341,282	—	—
Directors compensation	105,032	98,030	110,018
Other	(3,214)	(10,831)	4,561
Changes in operating assets and liabilities:			
Accounts receivable	(828,914)	4,059,104	8,530,328
Inventory	(3,339,765)	223,288	2,150,243
Prepaid expenses and other assets	(657,544)	(249,792)	(119,347)
Accounts payable and accrued expenses	11,006,067	(257,007)	(5,507,720)
Accrued income and other taxes	2,967,405	(292,604)	(2,546,057)
Net cash provided by operating activities	19,244,787	16,168,846	19,719,132
Cash provided by (used for) investing activities:			
Acquisition of equipment, furniture and fixtures	(2,470,170)	(2,124,474)	(2,565,420)
Payments for businesses acquired	—	(132,000)	(143,000)
Acquisition of intangible assets	(847,623)	(1,102,868)	(173,061)
Payments for patents	—	(580,026)	(458,780)
Purchases of short-term investments	(22,000,000)	(14,700,000)	(15,600,000)
Sale of short-term investments	44,500,000	12,300,000	7,000,000
Net cash provided by (used for) investing activities	19,182,207	(6,339,368)	(11,940,261)
Cash provided by (used for) financing activities:			
Payments on note payable	(41,414)	(62,700)	(50,421)
Proceeds from stock options exercised	3,342,748	1,334,250	1,749,552
Treasury stock purchased	(963,168)	(5,273,611)	(4,428,771)
Net cash provided by (used for) financing activities	2,338,166	(4,002,061)	(2,729,640)
Effect of exchange rate changes on cash	(348,128)	(1,933,625)	(187,544)
Net increase in cash and cash equivalents	40,417,032	3,893,792	4,861,687
Cash and cash equivalents at beginning of year	18,064,195	14,170,403	9,308,716
Cash and cash equivalents at end of year	\$ 58,481,227	\$ 18,064,195	\$ 14,170,403

Supplemental Cash Flow Information — Income taxes paid were \$1,145,973, \$1,492,108 and \$7,801,643 in 2003, 2002 and 2001, respectively.

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

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Description of Business

Universal Electronics Inc. (the “Company”) builds and markets pre-programmed, easy-to-use wireless control devices and chips principally for home entertainment equipment and the subscription broadcasting market. The Company also develops wireless control interface software for electronic display devices. The Company’s product lines include wireless interface technologies, such as combination keyboard/remotes and touch-screen remotes. The Company licenses its patented technologies and database of infrared (“IR”) codes to companies selling into the cable and satellite industries and to original equipment manufacturers (“OEMs”). The Company also sells its universal wireless control products to distributors and retailers in Europe, Asia, Latin America, South Africa, Australia, New Zealand, the Middle East, and Mexico under the *One For All*® brand name. Call center support services are also offered to Universal’s customers.

Note 2 — Summary of Significant Accounting Policies

Principles of Consolidation

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

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. On an on-going basis, the Company evaluates its estimates and judgments, including those related to revenue recognition, allowance for sales returns and doubtful accounts, inventory valuation, valuation of long-lived assets, intangible assets and goodwill, and income taxes.

Revenue Recognition

The Company recognizes revenue on the sale of products when title and risk of loss have passed to the customer, there is pervasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectibility is reasonably assured. The Company also licenses its patented technologies and database of infrared codes. The Company records license revenue when its customers ship products incorporating its technologies and database, provided collection of such revenue is reasonably assured. In addition, the Company generates service revenues as a result of providing consumer support programs, through its call center, to its various universal remote control marketers. These service revenues are recognized when the service is performed. The Company records a provision for estimated sales returns and allowances on product sales in the same period as the related revenues are recorded. These estimates are based on historical sales returns, analysis of credit memo data and other known factors.

The Company maintains allowances for doubtful accounts. The allowance for doubtful accounts includes estimated losses resulting from the inability of its customers to make required payments. Management specifically analyzes accounts receivables and historical bad debts, customer credit, current economic trends and changes in customer payment trends when evaluating the adequacy of the allowance for doubtful accounts.

Foreign Currency Translation and Foreign Currency Transactions

Financial statements of foreign subsidiaries, for which the functional currency is the local currency, are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and a weighted average exchange rate for each period for statement of income items. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are included in the foreign currency translation adjustment, a component of accumulated other comprehensive income (loss) in stockholders’ equity.

Table of Contents

Transaction gains and losses generated by the effect of changes in foreign exchange rates on recorded assets and liabilities denominated in a currency different from the functional currency of the applicable Company entity are recorded currently in other income/expense. The portions of inter-company accounts receivable and accounts payable that are not intended for settlement are translated as described in the preceding paragraph.

Cash and Cash Equivalents

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

Investments

The Company accounts for its investments in accordance with Statements of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Investments include auction rate notes and bonds with original maturities ranging from 25 to 35 years. The interest rates on the auction rate securities are reset every 28 to 35 days through an auction facilitated by a registered broker-dealer. The interest is credited to the Company's account immediately prior to the reset date; accordingly, unrealized gains or losses are insignificant. The Company's investments are classified as available-for-sale and are recorded at fair value, which approximates their cost. The Company's available-for-sale investments are classified as short-term investments in the consolidated balance sheets as the Company intends to sell these securities as necessary to meet its liquidity requirements. The cost of securities sold is determined based on specific identification. Such investments total \$0 and \$22,500,000 at December 31, 2003 and 2002, respectively, and are included in short-term investments in the accompanying balance sheets.

The Company accounts for its investment which does not have a readily determinable fair value using the cost method as the Company's investment is less than 20% and the Company is unable to exercise significant influence over the investee. Under the cost method, investments are carried at cost and adjusted only for other-than-temporary declines in fair value, distributions of earnings or additional investments. Included in other assets is a \$360,518 cost investment.

Inventories

Inventories consisting of wireless control devices, including universal remote controls, wireless keyboards, antennas, and related component parts, are valued at the lower of cost or market. Cost is determined using the first-in, first-out method. The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about the future demand and market conditions.

The Company carries inventory in amounts necessary to satisfy certain of its customers' inventory requirements on a timely basis. New product innovations and technological advances may shorten a given product's life cycle. Management continually monitors the inventory status to control inventory levels and dispose of any excess or obsolete inventories on hand. Inventory write-downs in 2003 totaled approximately \$1.8 million, with approximately \$0.4 million recorded in the fourth quarter.

Equipment, Furniture and Fixtures

Equipment, furniture and fixtures are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Tooling and equipment are depreciated over two to seven years. Furniture and fixtures are depreciated over five to seven years. Leasehold improvements are amortized over two to five years, which represent the shorter of their useful lives or the terms of the related leases. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the appropriate accounts and any gain or loss is included in current income.

Long-Lived Assets and Other Intangible Assets

Intangible assets consist principally of distribution rights, patents, trademarks and purchased technologies. Capitalized amounts related to patents represent external legal costs for the application and maintenance of patents. Intangible assets are amortized using the straight-line method over their estimated period of benefit, ranging from five to ten years. The Company assesses the impairment of long-lived assets and other intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which could trigger an impairment review include the following: (1) significant

Table of Contents

underperformance relative to expected historical or projected future operating results; (2) significant changes in the manner of the Company's use of the acquired assets or strategy for the overall business; (3) significant negative industry or economic trends; (4) significant decline in the stock price for a sustained period; and (5) the Company's market capitalization relative to net book value. When the Company determines that the carrying value may not be recoverable based upon the existence of one or more of the above indicators of impairment, and based on the carrying value of the asset being less than the undiscounted cash flows, the Company measures an impairment based on projected discounted cash flows using a discount rate commensurate with the risk inherent in the Company's current business model. In assessing recoverability, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets.

Goodwill

Goodwill represents the excess of the purchase price for business acquisitions over the identified intangible assets and net assets acquired. In accordance with SFAS No. 142, we ceased amortization on approximately \$3.0 million of net unamortized goodwill beginning January 1, 2002. We recorded approximately \$565,000 of amortization during 2001 and would have recorded approximately \$565,000 of amortization during both 2003 and 2002. We performed an initial impairment review of our goodwill on January 1, 2002; conducted annual impairment reviews as of December 31, 2003 and 2002 and will perform an annual review in subsequent years. In performing the initial impairment review, we identified our reporting units and determined the carrying value of each reporting unit by assigning assets and liabilities, including the existing goodwill, to those reporting units as of January 1, 2002. We then determined the fair value of each reporting unit using the present value of expected future cash flows and compared it to the reporting unit's carrying amount. Based on this analysis, we determined that each reporting unit's fair value exceeded its carrying amount, and therefore concluded that there was no indication of a transitional impairment loss.

For the year ended December 31, 2001, the Company applied the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets to Be Disposed of" to evaluate the recoverability of goodwill.

Income Taxes

Income tax expense includes U.S. and international income taxes. The Company records on its balance sheet deferred tax assets and liabilities for expected future tax consequences of events that have been recognized in different periods for financial statement purposes versus tax return purposes. The Company provides a valuation allowance for net deferred tax assets when it is more likely than not that a portion of such net deferred tax assets will not be recovered.

Research and Development and Capitalized Software Costs

The Company accounts for research and development costs in accordance with SFAS No. 2, "Accounting for Research and Development Costs," and SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." Costs incurred internally in creating a computer software product are expensed when incurred as research and development until technological feasibility has been established for the product. Research and development include costs such as salaries and employee benefits, supplies and materials. The Company has determined that technological feasibility for its products is reached when a working model is completed. Once technological feasibility is established, software costs are capitalized until the product is available for general release to customers and is then amortized using (i) the ratio that current gross revenues for a product bear to the total of current anticipated future gross revenues from that product or (ii) the straight-line method over the remaining estimated economic life of the product, whichever is greater. Capitalized software costs are stated at cost, net of accumulated amortization. The Company capitalized \$0 and \$321,484 for the years ended December 31, 2003 and 2002, respectively, and amortized \$90,000 and \$52,500 in the years ended December 31, 2003 and 2002, respectively. The amortization period for capitalized software costs is 5 years.

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$1,105,916, \$1,319,653 and \$1,470,141, for the years ended December 31, 2003, 2002 and 2001, respectively.

[Table of Contents](#)

Shipping and Handling Costs

The Company records shipping and handling costs in selling, general and administrative expenses. Shipping and handling costs amounted to \$3,917,665, \$3,525,127 and \$2,292,690 for the years ended December 31, 2003, 2002 and 2001, respectively. Amounts charged to customers are included in net revenues.

Derivatives

The Company enters into foreign currency exchange contracts with option-based arrangements and 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. 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. The Company does not enter into financial instruments for speculation or trading purposes. The Company had no foreign currency exchange contracts or other derivatives outstanding at December 31, 2003 and 2002.

During 2003 we periodically invested in 30 day Dual Currency Deposits which required us to convert the invested amount to another currency at end of the contract period in the event certain changes occurred in foreign currency exchange rates. No such investments were outstanding as of December 31, 2003.

Stock-Based Compensation

The Company applies the provisions of Accounting Principles Board Opinion No. 25 in accounting for stock-based employee compensation; therefore, no compensation expense has been recognized for its fixed stock option plans as options are granted at fair market value on the date of the grant. In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure," the Company adopted the disclosure requirements of this Statement.

The Company has provided below, the pro forma disclosures of the effect of net income and earnings per share as if SFAS No. 123 had been applied in measuring compensation expense for all periods presented. The following table illustrates, pursuant to SFAS No. 123, as amended by SFAS No. 148, the effect on net income and related earnings per share, had compensation cost for stock based compensation plans been determined based on the fair value method prescribed under SFAS No. 123 (Note 10):

	Year Ended December 31,		
	2003	2002	2001
Net income			
As reported	\$ 6,266,815	\$ 5,939,253	\$ 11,285,778
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,993,608)	(3,281,112)	(2,370,212)
Pro forma	\$ 3,273,207	\$ 2,658,141	\$ 8,915,566
Basic earnings per share:			
As reported	\$ 0.46	\$ 0.43	\$ 0.82
Pro forma	\$ 0.24	\$ 0.19	\$ 0.64
Diluted earnings per share:			
As reported	\$ 0.45	\$ 0.42	\$ 0.78
Pro forma	\$ 0.23	\$ 0.19	\$ 0.61

The fair value of options at date of grant was estimated using the Black-Scholes model. The following assumptions were used for the grants in 2003, 2002, and 2001, respectively: risk-free interest rate of approximately 3.00%, 3.64%, and 4.85%; expected volatility of approximately 62.95%, 66.34%, and 63.06%; expected life of five years for 2003, 2002 and 2001; and the common stock will pay no dividends. The per share weighted average grant date fair values of the options granted in 2003, 2002 and 2001 were \$5.87, \$7.14 and \$10.43, respectively.

[Table of Contents](#)

Reclassifications

Certain prior year amounts have been reclassified to conform to the presentation utilized in the year ended December 31, 2003.

New Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45 (“FIN No. 45”), “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” FIN No. 45 expands on the accounting guidance of Statements Nos. 5, 57, and 107 and incorporates without change the provisions of FASB Interpretation No. 34, which is being superseded. FIN No. 45 affects leasing transactions involving residual guarantees, vendor and manufacturer guarantees, and tax and environmental indemnities. All such guarantees must be disclosed in the notes to the financial statements starting with the period ending after December 15, 2002. For guarantees issued after December 31, 2002, the fair value of the obligation must be reported on the balance sheet. Existing guarantees will be grandfathered and will not be recognized on the balance sheet. The adoption of FIN No. 45 did not have a material effect on the Company’s financial position, results of operations, or cash flows.

In November 2002, the Financial Accounting Standards Board issued Emerging Issues Task Force (“EITF”) Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables.” EITF Issue No. 00-21 addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. EITF Issue No. 00-21 addresses when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF Issue No. 00-21 provides guidance with respect to the effect of certain customer rights due to company nonperformance on the recognition of revenue allocated to delivered units of accounting. EITF Issue No. 00-21 also addresses the impact on the measurement and/or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the company. Finally, EITF Issue No. 00-21 provides guidance with respect to the recognition of the cost of certain deliverables that are excluded from the revenue accounting for an arrangement. The provisions of EITF Issue No. 00-21 applies to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF Issue No. 00-21 did not have a material effect on the Company’s financial position, results of operations, or cash flows.

In January 2003, the FASB issued FIN 46, “Consolidation of Variable Interest Entities,” an Interpretation of Accounting Research Bulletin No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. The adoption of FIN 46 did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In December 2003, the FASB issued FIN 46R with respect to variable interest entities created before January 31, 2003, which among other things, revised the implementation date to the first fiscal year or interim period ending after March 15, 2004, with the exception of Special Purpose Entities (“SPE”). The consolidation requirements apply to all SPE’s in the first fiscal year or interim period ending after December 15, 2003. The adoption of FIN 46R with respect to SPEs did not have a material effect on our financial position or results of operations, and we do not expect the adoption of the provisions for non-SPEs to have a material impact on the Company’s financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity”. SFAS 150 establishes new standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for certain mandatorily redeemable non-controlling interests. The adoption of SFAS 150 did not have a material effect on the Company’s financial position, results of operations, or cash flows.

In December 2003, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 104, “Revenue Recognition,” which revises or rescinds portions of its previously existing revenue recognition guidance in order to make it consistent with current authoritative accounting and auditing guidance and Securities and Exchange Commission rules and regulations. The adoption of SAB No. 104 did not have a material effect on the Company’s financial position, results of operations or cash flows.

Note 3 — Goodwill and Other Intangible Assets

In July 2001, the FASB issued SFAS No. 141, “Business Combinations” and SFAS No. 142, “Goodwill and Intangible Assets.” As discussed in Note 2, the Company adopted SFAS No. 142 effective January 1, 2002.

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 its domestic and international operations as 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 the UK in 1998, Spain in 1999 and France in 2000. Goodwill information for each reporting unit is as follows (in thousands):

	December 31, 2003	December 31, 2002
United States	\$1,191	\$1,191
International	2,157	1,770
Total Goodwill	\$3,348	\$2,961

The increase in international goodwill is due to currency translation adjustments.

The following table shows, on an as adjusted basis, what net income and earnings per share would have been if SFAS No. 142 had been applied beginning January 1, 2001 (in thousands):

	Year Ended December 31, 2001
Net income, as reported	\$11,286
Add back: goodwill amortization, net of tax effect	388
As adjusted, net income	\$11,674
Basic earnings per share, as reported	\$ 0.82
Add back: goodwill amortization, net of tax effect	0.02
As adjusted, basic earnings per share	\$ 0.84
Diluted earnings per share, as reported	\$ 0.78
Add back: goodwill amortization, net of tax effect	0.02
As adjusted, diluted earnings per share	\$ 0.80

[Table of Contents](#)

Information regarding the Company's other acquired intangible assets and patents are as follows (in thousands):

	December 31, 2003	December 31, 2002
Carrying amount:		
Distribution rights	\$2,597	\$2,597
Patents	3,294	2,636
Trademark	538	348
Technology	1,285	1,285
Other	1,048	1,048
Total carrying amount	\$8,762	\$7,914
Accumulated amortization:		
Distribution rights	\$2,562	\$2,134
Patents	1,228	951
Trademark	100	77
Technology	416	170
Other	1,025	900
Total accumulated amortization	\$5,331	\$4,232
Net carrying amount:		
Distribution rights	\$ 35	\$ 463
Patents	2,066	1,685
Trademark	438	271
Technology	869	1,115
Other	23	148
Total net carrying amount	\$3,431	\$3,682

Amortization expense for 2003, 2002 and 2001 amounted to approximately \$0.9 million, \$1.1 million and \$1.4 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):

2004	\$659
2005	624
2006	624
2007	624
2008	624

[Table of Contents](#)**Note 4 — Accounts Receivable**

Accounts receivable consist of the following:

	December 31,	
	2003	2002
Accounts receivable, gross	\$34,278,539	\$28,481,871
Allowances	(3,778,098)	(2,604,933)
Accounts Receivable, net	\$30,500,441	\$25,876,938

Note 5 — Inventories

Inventories consist of the following:

	December 31,	
	2003	2002
Components	\$ 7,592,681	\$ 7,950,040
Finished goods	11,793,596	8,526,166
Inventory, net	\$19,386,277	\$16,476,206

Note 6 — Equipment, Furniture and Fixtures

Equipment, furniture and fixtures consist of the following:

	December 31,	
	2003	2002
Tooling	\$ 7,664,091	\$ 6,039,332
Equipment	6,298,838	5,697,916
Furniture and fixtures	1,201,868	1,143,719
Leasehold improvements	990,885	1,277,121
	16,155,682	14,158,088
Accumulated depreciation	(12,681,092)	(10,775,119)
Equipment, furniture and fixtures, net	\$ 3,474,590	\$ 3,382,969

Depreciation expense was \$2,378,549, \$2,569,033 and \$2,663,791, for the years ended December 31, 2003, 2002 and 2001, respectively.

Note 7 — Revolving Credit Line

On September 2, 2003, the Company terminated a \$15,000,000 unsecured revolving credit agreement with Bank of America National Trust and Savings Association. On September 15, 2003, the Company entered into a three-year \$15,000,000 unsecured revolving credit agreement (the "Agreement") with Comerica Bank ("Comerica"). Under the Agreement with Comerica, the interest payable is variable and is based on either the bank's cost of funds or the LIBOR rate plus a fixed margin of 1.25%. The interest rate in effect as of December 31, 2003 using the LIBOR Rate option plus a fixed margin of 1.25% was 2.37%. The Company pays a commitment fee ranging from zero to a maximum rate of 1/4 of 1% per year on the unused portion of the credit line depending on the amount of cash investment retained with Comerica during each quarter. Under the terms of this Agreement, dividend payments are allowed up to 100% of net income of the prior fiscal year period to be paid within 90 days of such prior year, and the Company is subject to certain financial covenants related to the Company's net worth, quick ratio, and net income. The Company has authority under this credit facility to acquire up to 1,500,000 shares of its common stock in market purchases. As of December 31, 2003, 1,454,264 remained available for purchase. Amounts available for borrowing under this credit facility are reduced by the outstanding balance of import letters of credit. No borrowings

[Table of Contents](#)

under the credit lines occurred during 2002 or 2003. As of December 31, 2003, we had no amounts outstanding under this credit facility and no outstanding import letters of credit. Furthermore, as of December 31, 2003, we are in compliance with all financial covenants required by the Agreement. No interest was paid for the years ended December 31, 2003 or 2002.

Note 8 — Financial Instruments

The Company's financial instruments consist primarily of investments in cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities. The carrying value of these instruments approximates fair value because of their short maturity.

Note 9 — Stockholders' Equity

Fair Price Provisions and Other Anti-Takeover Measures

The Company's Restated Certificate of Incorporation, as amended, contains certain provisions restricting business combinations with interested stockholders under certain circumstances and imposing higher voting requirements for the approval of certain transactions ("fair price" provision). Any of these provisions could delay or prevent a change in control of the Company.

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

Treasury Stock

During 2003, 2002 and 2001, 84,437, 584,845 and 301,600 shares of common stock were purchased by the Company on the open market at a cost of \$963,168, \$5,273,611 and \$4,428,771, respectively. These shares are recorded as shares held in treasury at cost. The shares will generally be held by the Company for future use as management and the Board of Directors deem appropriate. In addition, some of these shares will be used by the Company to compensate the outside directors of the Company. During 2003, 2002 and 2001, 7,080, 6,836 and 6,188 shares, respectively, were issued to the outside directors.

Restricted Stock Awards

On July 11, 2001, as compensation for the outside directors for the three year period commencing July 1, 2001, the Company granted each director restricted shares with a fair market value equivalent to approximately \$84,000. These restricted shares have been recorded in a separate component of stockholders' equity and are being amortized over their three-year vesting period. Each calendar quarter, 1/12 of the total stock award will vest and the shares will be distributed provided the director has served the entire calendar quarter term. Amortization expense amounted to \$105,032, \$98,030 and \$110,018 in 2003, 2002 and 2001, respectively.

During the year ended December 31, 1999, a total of 7,950 restricted shares of the Company's common stock were reserved for issuance to certain employees. The restricted shares vest over a two-year period and had a market value of \$107,713 at the award date. These awards have been recorded in a separate component of stockholders' equity. The carrying value of the restricted stock grants was amortized over the two-year vesting period and has been fully amortized as of December 31, 2001. Amortization expense amounted to \$29,260 in 2001.

Note 10 — Stock Options

1993 Stock Incentive Plan

On January 19, 1993, the 1993 Stock Incentive Plan ("1993 Plan") was approved. Under the 1993 Plan, 400,000 shares of common stock are reserved for the granting of incentive and other stock options to officers, key employees and non-affiliated directors. The 1993 Plan provides for the granting of incentive and other stock options through January 19, 2003. All options outstanding at the time of termination of the 1993 Plan shall continue in full force and effect in accordance with their terms. The option price for incentive stock options and non-qualified stock options will not be less than the fair market value at the date of grant. The Compensation Committee shall determine when each option is to expire, but no option shall be exercisable more than ten years after the date the

[Table of Contents](#)

option is granted. The 1993 Plan also provides for the award of stock appreciation rights subject to terms and conditions specified by the Compensation Committee. No stock appreciation rights have been awarded under this 1993 Plan.

1995 Stock Incentive Plan

On May 19, 1995, the 1995 Stock Incentive Plan (“1995 Plan”) was approved. Under the 1995 Plan, 800,000 shares of common stock are available for distribution to the Company’s key officers, employees and non-affiliated directors. The 1995 Plan provides for the issuance of stock options, stock appreciation rights, performance stock units, or any combination thereof through May 19, 2005, unless otherwise terminated by resolution of the Board of Directors. The option price for the stock options will be equal to the fair market value at the date of grant. The Compensation Committee shall determine when each option is to expire, but no option shall be exercisable more than ten years after the date the option is granted. No stock appreciation rights or performance stock units have been awarded under this 1995 Plan.

1996 Stock Incentive Plan

On December 1, 1996, the 1996 Stock Incentive Plan (“1996 Plan”) was approved. Under the 1996 Plan, 800,000 shares of common stock are available for distribution to the Company’s key officers and employees. The 1996 Plan provides for the issuance of stock options, stock appreciation rights, performance stock units, or any combination thereof through November 30, 2007, unless otherwise terminated by the resolution of the Company’s Board of Directors. The option price for the stock options will be equal to the fair market value at the date of grant. The Compensation Committee shall determine when each option is to expire, but no option shall be exercisable more than ten years after the date the option is granted. No stock appreciation rights or performance stock units have been awarded under this 1996 Plan.

1998 Stock Incentive Plan

On May 27, 1998, the 1998 Stock Incentive Plan (“1998 Plan”) was approved. Under the 1998 Plan, 630,000 shares of common stock are available for distribution to the Company’s key officers and employees. The 1998 Plan provides for the issuance of stock options, stock appreciation rights, performance stock units, or any combination thereof through May 27, 2008, unless otherwise terminated by resolution of the Company’s Board of Directors. The option price for the stock options will not be less than the fair market value at the date of grant. The Compensation Committee shall determine when each option is to expire, but no option shall be exercisable more than ten years after the date the option is granted. No stock appreciation rights or performance stock units have been awarded under this 1998 Plan.

1999 Stock Incentive Plan

On January 27, 1999, the 1999 Stock Incentive Plan (“1999 Plan”) was approved. Under the 1999 Plan, 630,000 shares of common stock are available for distribution to the Company’s key officers and employees. The 1999 Plan provides for the issuance of stock options, stock appreciation rights, performance stock units, or any combination thereof through January 27, 2009, unless otherwise terminated by resolution of the Company’s Board of Directors. The option price for the stock options will not be less than the fair market value at the date of grant. The Compensation Committee shall determine when each option is to expire, but no option shall be exercisable more than ten years after the date the option is granted. No stock appreciation rights or performance stock units have been awarded under this 1999 Plan.

1999A Stock Incentive Plan

On October 7, 1999, the 1999A Nonqualified Stock Plan (“1999A Plan”) was approved and on February 1, 2000, the 1999A Plan was amended. Under the 1999A Plan, 1,000,000 shares of common stock are available for distribution to the Company’s key officers and employees. The 1999A Plan provides for the issuance of stock options, stock appreciation rights, performance stock units, or any combination thereof through October 7, 2009, unless otherwise terminated by resolution of the Company’s Board of Directors. The option price for the stock options will not be less than the fair market value at the date of grant. The Compensation Committee shall determine when each option is to expire, but no option shall be exercisable more than ten years after the date the option is granted. No stock appreciation rights or performance stock units have been awarded under this 1999A Plan.

[Table of Contents](#)

2002 Stock Incentive Plan

On February 5, 2002, the 2002 Nonqualified Stock Plan (“2002 Plan”) was approved. Under the 2002 Plan, 1,000,000 shares of common stock are available for distribution to the Company’s key officers and employees. The 2002 Plan provides for the issuance of stock options, stock appreciation rights, performance stock units, or any combination thereof through February 5, 2012, unless otherwise terminated by resolution of the Company’s Board of Directors. The option price for the stock options will not be less than the fair market value at the date of grant. The Compensation Committee shall determine when each option is to expire, but no option shall be exercisable more than ten years after the date the option is granted. No stock appreciation rights or performance stock units have been awarded under this 2002 Plan.

2003 Stock Incentive Plan

On June 18, 2003, the 2003 Nonqualified Stock Plan (“2003 Plan”) was approved. Under the 2003 Plan, 1,000,000 shares of common stock are available for distribution to the Company’s key officers and employees. The 2003 Plan provides for the issuance of stock options, stock appreciation rights, performance stock units, or any combination thereof through June 17, 2013, unless otherwise terminated by resolution of the Company’s Board of Directors. The option price for the stock options will not be less than the fair market value at the date of grant. The Compensation Committee shall determine when each option is to expire, but no option shall be exercisable more than ten years after the date the option is granted. No stock appreciation rights or performance stock units have been awarded under this 2003 Plan.

Vesting periods for the above referenced stock incentive plans range from three to four years.

The following table summarizes the changes in the number of shares of common stock under option:

	2003		2002		2001	
	Shares (000)	Weighted-Average Exercise Price	Shares (000)	Weighted-Average Exercise Price	Shares (000)	Weighted-Average Exercise Price
Outstanding at beginning of year	2,976	\$12.00	2,260	\$11.28	2,455	\$10.29
Granted	119	10.60	998	12.14	153	18.08
Exercised	(370)	8.96	(243)	5.49	(284)	6.15
Expired and/or forfeited	(63)	13.92	(39)	14.17	(64)	13.79
Outstanding at end of year	2,662	\$12.32	2,976	\$12.00	2,260	\$11.28
Options exercisable at year-end	1,668		1,502		1,076	

[Table of Contents](#)

Significant option groups outstanding at December 31, 2003 and related weighted average price and life information are as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding At 12/31/03	Weighted-Average Remaining Years of Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 12/31/03	Weighted-Average Exercise Price
\$2.16 to \$7.50	500	4.7	\$ 6.11	500	\$ 6.11
8.45 to 10.53	570	8.9	8.68	125	8.51
11.02 to 14.71	569	6.0	11.10	531	11.04
15.20 to 22.78	1,023	7.3	18.06	512	18.92
\$2.16 to \$22.78	2,662	6.9	\$12.32	1,668	\$ 11.79

During 2003, common stock options were modified for two employees as part of severance agreements. The total number of options modified was 92,647, which resulted in new measurement dates. The difference between the exercise price and the fair value of the common stock on the new measurement dates for the options totaled \$341,282. As a result, \$341,282 was charged to non-cash stock-based compensation.

Note 11 — Significant Customers and Suppliers

One significant customer, with purchases of \$18.1 million and \$15.9 million, accounted for 15.0% and 15.3%, respectively of total 2003 and 2002 revenues. Trade receivables with this customer amounted to \$2.7 million and \$2.9 million or 9.0% and 11.2%, respectively of the total trade receivables at December 31, 2003 and 2002. During 2001, there were no customers with individual purchases exceeding 10% of total Company sales.

Trade receivables subject the Company to a concentration of credit risk. The risk is mitigated due to the large number of customers comprising the Company's customer base, the relative size and strength of most of the Company's customers and the Company's performance of ongoing credit evaluations.

The Company utilizes third-party manufacturers in Asia, Mexico and the United States to produce its wireless control products. Purchases with three major suppliers amounted to \$13.4 million, \$10.7 million and \$6.9 million representing 19.7%, 15.6% and 10.1%, respectively of total inventory purchases in 2003. Purchases with two major suppliers amounted to \$7.3 million and \$9.4 million representing 11.7% and 15.2%, respectively, of total inventory purchases during 2002. Accounts payable with the previously mentioned three suppliers amounted to \$940,000, \$3,587,000 and \$679,000 representing 6.8%, 26.1% and 4.9% of the total accounts payable at December 31, 2003. Additionally, there was one supplier with accounts payable of \$1.7 million or 12.0% of the total accounts payable at December 31, 2003. Accounts payable with the previously mentioned two suppliers amounted to \$758,000 and \$796,000 or 9.7% and 10.2%, respectively, of the total accounts payable at December 31, 2002. Purchases with three major suppliers amounted to \$10.5 million, \$8.6 million and \$10.9 million representing 15.0%, 12.3% and 15.7%, respectively, of total inventory purchases during 2001.

Note 12 — Leases

The Company leases office and warehouse space and certain office equipment under operating leases that expire at various dates through December 31, 2009. Rental expense under operating leases was \$1,578,643, \$1,211,852 and \$1,010,896 for the years ended December 31, 2003, 2002 and 2001, respectively.

The following summarizes future minimum non-cancelable operating lease payments with initial terms greater than one year at December 31, 2003:

	Amount
Year ending December 31:	
2004	\$1,408,094
2005	1,047,087
2006	505,343
2007	324,597
2008	42,560
thereafter	29,378
Total lease commitments	\$3,357,059

Note 13 — Employee Benefit Plans

The Company maintains a retirement and profit sharing plan under Section 401(k) of the Internal Revenue Code for all of its domestic employees that meet certain qualifications. Participants in the plan may elect to contribute from 1% to 15% of their annual salary to the plan. The Company may, at its discretion, make contributions to the plan. The Company matches 50% of the participants' contributions in the form of newly issued shares of common stock of the Company. The expense recorded for the years ended December 31, 2003, 2002 and 2001 amounted to \$390,087, \$384,329 and \$283,352, respectively.

Note 14 — Other Income, Net

“Other income, net” in the Consolidated Income Statements consisted of the following:

	Year Ended December 31,		
	2003	2002	2001
Net gain on foreign exchange transactions	\$343,804	\$ 93,740	\$113,946
Patent settlements	—	162,964	—
Other	(5,645)	(17,461)	33,363
Total	<u>\$338,159</u>	<u>\$239,243</u>	<u>\$147,309</u>

During 2002, the Company settled patent infringement suits resulting in payments totaling \$162,964.

Note 15 — Income Taxes

In 2003, 2002, and 2001, pretax income was attributed to the following jurisdictions:

	Year Ended December 31,		
	2003	2002	2001
Domestic operations	\$6,002,416	\$4,898,516	\$19,164,817
Foreign operations	3,492,758	2,916,290	(2,021,853)
Total	<u>\$9,495,174</u>	<u>\$7,814,806</u>	<u>\$17,142,964</u>

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

	Year Ended December 31,		
	2003	2002	2001
Current tax expense:			
U.S. federal	\$2,438,395	\$ 554,105	\$5,402,319
State and local	156,965	(389,006)	582,700
Foreign	1,482,389	1,011,728	65,953
Total current	<u>4,077,749</u>	<u>1,176,827</u>	<u>6,050,972</u>
Deferred tax expense:			
U.S. federal	(715,000)	492,992	322,750
State and local	(46,000)	42,009	95,800
Foreign	(88,390)	163,725	(612,336)
Total deferred	<u>(849,390)</u>	<u>698,726</u>	<u>(193,786)</u>
Total provision	<u>\$3,228,359</u>	<u>\$1,875,553</u>	<u>\$5,857,186</u>

[Table of Contents](#)

Net deferred tax assets comprised the following at December 31:

	2003	2002
Inventory reserves	\$ 990,199	\$ 438,686
Allowance for doubtful accounts	727,280	688,777
Capitalized inventory costs	287,341	408,832
Net operating losses	303,311	477,510
Amortization of intangibles	758,653	333,315
Accrued liabilities	693,049	660,583
State taxes	18,407	1,577
Depreciation	17,062	17,062
Other	168,104	58,967
	\$3,963,406	\$3,085,309
Less: Valuation allowance	(137,406)	(108,699)
Net deferred tax assets	\$3,826,000	\$2,976,610

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

	Year Ended December 31,		
	2003	2002	2001
Tax provision at statutory U.S. rate			
Increase (decrease) in tax provision resulting from:	\$3,228,359	\$2,657,034	\$6,000,037
State and local taxes, net	80,288	(225,554)	480,505
Foreign tax rate differential	171,534	183,915	76,669
Nondeductible items	29,199	14,663	19,316
Federal research and development credits	(282,055)	(645,251)	(416,695)
Other	1,034	(109,254)	(302,646)
Tax provision	\$3,228,359	\$1,875,553	\$5,857,186

At December 31, 2003, the Company has certain foreign net operating losses of approximately \$924,000, which begin to expire in 2007. At December 31, 2003, a valuation allowance of approximately \$400,000 has been provided on certain foreign net operating losses.

No income taxes have been provided on the undistributed earnings of foreign subsidiaries as the earnings are expected to be permanently reinvested in the foreign operations. Determination of the amount of unrecognized deferred tax liability for temporary differences related to the undistributed earnings of the Company's foreign operations is not practicable.

Subsequent to December 31, 2003, the California Franchise Tax Board began an audit of the years ended December 31, 1999 and 2000. The results of this audit are not expected to have a material impact on the Company's financial position or results of operations.

Note 16 — 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 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 years ended December 31, 2003, 2002 and 2001, approximately 1,031,125, 1,782,000 and 589,000 stock options, respectively, with exercise prices greater than the average market price of the underlying common stock, were excluded because their inclusion would have been antidilutive.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Year Ended		
	December 31, 2003	December 31, 2002	December 31, 2001
BASIC			
Net Income	\$ 6,267	\$ 5,939	\$11,286
Weighted-average common shares outstanding	13,703	13,790	13,844
Basic earnings per share	\$ 0.46	\$ 0.43	\$ 0.82
DILUTED			
Net Income	\$ 6,267	\$ 5,939	\$11,286
Weighted-average common shares outstanding for basic	13,703	13,790	13,844
Dilutive effect of stock options and restricted stock	304	373	679
Weighted-average common shares outstanding on a diluted basis	14,007	14,163	14,523
Diluted earnings per share	\$ 0.45	\$ 0.42	\$ 0.78

Note 17 — Business Segments and Foreign Operations

The Company operates in a single industry segment and is engaged in the building and marketing of universal wireless controls and related products principally for video and audio entertainment equipment. The Company's customers consist primarily of international retailers and distributors, private label customers, original equipment manufacturers, subscription broadcast operators and companies in the computing industry.

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

	December 31, 2003	Year ended December 31, 2002	December 31, 2001
Net Sales United States	\$ 67,641,896	\$ 64,869,051	\$ 81,013,675
Netherlands	16,187,092	11,712,572	12,703,846
United Kingdom	15,666,576	11,734,250	8,723,896
France	4,430,504	4,226,259	5,232,039
Germany	5,422,239	3,437,778	2,686,711
All Other	11,119,479	7,910,818	8,669,548
	<u>\$120,467,786</u>	<u>\$103,890,728</u>	<u>\$119,029,715</u>
	2003	December 31, 2002	2001
Long-Lived Assets			
United States	\$3,002,066	\$ 7,131,655	\$ 6,509,690
All Other Countries	1,917,065	3,632,999	4,124,093
	<u>\$4,919,131</u>	<u>\$10,764,654</u>	<u>\$10,633,783</u>

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

Note 18 — Related Party Transactions

In August 2001, the Company entered into a 30-month consulting agreement with one of its former directors, under which the former director received \$600,000 for services rendered. Amounts paid under this agreement were \$200,000, \$200,000 and \$200,000 for the years ended December 31, 2003, 2002 and 2001, respectively. The agreement expires February 2004. There were no further amounts due at December 31, 2003.

In April 1999, the Company provided a non-recourse interest bearing secured loan to one of the Company's executive officers. The loan in the amount of \$200,000, bears interest at the rate of 5.28% per annum, with interest payable annually to the Company on each December 15th. The loan is collateralized by the primary residence purchased and the principal is payable on the earlier of (i) December 15, 2007, (ii) within twelve months following a demand from the Company or (iii) on the closing of a sale or transfer of the property.

Note 19 — Contingencies*Product Warranties*

The Company provides for estimated product warranty expenses concurrent with the recognition of revenue. Because warranty estimates are forecasts that are based on the best available information, mostly historical claims experience, claims costs may differ from amounts provided. An analysis of changes in the liability for product warranties follows:

Description	Balance at beginning of period	Accruals for Warranties Issued During the Period	Accruals Relating to Preexisting Warranties and Changes in Estimates	Settlements (in Cash or in Kind) During the Period	Balance at end of period
Year Ended December 31, 2003	\$ 95,005	\$181,466	\$ 0	\$(181,466)	\$95,005
Year Ended December 31, 2002	\$134,819	\$ 51,142	\$ 0	\$ (90,956)	\$95,005

Litigation

On November 15, 2000, the Company filed suit against Universal Remote Control Inc. alleging that Universal Remote has infringed certain of the Company's patents (Universal Electronics Inc. v. Universal Remote Control, Inc., Civil Action No. SACV 00- 1125 AHS (EEx)). The Company is seeking damages and injunctive relief. Universal Remote has answered the complaint and has denied infringement, and the Company is engaged in discovery.

On November 19, 2002, the Company filed suit against Intrigue Technologies, Inc., which was amended on February 13, 2004, alleging that Intrigue Technologies has infringed certain of the Company's patents (Universal Electronics Inc. v. Intrigue Technologies, Inc., Civil Action No. SA02-1089GLT (ANX)). Intrigue Technologies has answered this complaint denying infringement. In addition, Intrigue Technologies has filed suit against the Company (Intrigue Technologies, Inc. v. Universal Electronics Inc., Case Number A3-02-124) seeking a judgment to declare certain of the Company's patents invalid, unenforceable and void and also alleging that we have violated federal antitrust laws with respect to our patent enforcement. The Company has not yet answered this complaint; however, it intends to do so denying all of Intrigue Technologies' material allegations. As of December 31 2003 and 2002, a loss contingency has not been recorded since management believes an unfavorable outcome for this matter is not probable.

On January 7, 2004, James D. Lyon, Trustee for the bankruptcy estate of Computrex, Inc. filed an action against the Company alleging that the Company received preferential treatment in connection with certain payments made on the Company's behalf by Computrex. (Computrex, Inc. (Debtor) and James D. Lyon (Trustee for the bankruptcy estate of Computrex, Inc.) v. Universal Electronics Inc., Case No. 01-53755 Chapter 7, United States Bankruptcy Court, Eastern District of Kentucky, Lexington Division). The Company has not yet answered this complaint and will not need to do so as this action is currently in abeyance while the trustee appeals an adverse ruling against it in another matter having facts similar to those in the trustee's action against the Company. If and when the Company

[Table of Contents](#)

is to answer, it intends to deny all of the material allegations made against the Company and defend this matter vigorously. As of December 31 2003, a loss contingency has not been recorded since management believes an unfavorable outcome for this matter is not probable.

While it is the opinion of management that the Company's 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 the Company's financial condition, results of operations and cash flows.

Supplementary Data**Quarterly Financial Data (Unaudited)**

Summarized quarterly financial data for the years ended December 31, 2003 and 2002 is presented below.

	2003			
	March 31,	June 30,	September 30,	December 31(2),
Net sales	\$26,918,697	\$27,711,796	\$30,300,217	\$35,537,076
Gross profit	10,156,897	10,830,374	11,832,663	13,479,567
Operating income	1,305,943	1,577,218	2,390,154	3,300,167
Net income	939,045	1,201,629	1,666,992	2,459,149
Earnings per share (1):				
Basic	\$ 0.07	\$ 0.09	\$ 0.12	\$ 0.18
Diluted	\$ 0.07	\$ 0.09	\$ 0.12	\$ 0.17
Shares used in computing earnings per share:				
Basic	13,581,581	13,612,039	13,750,669	13,835,281
Diluted	13,785,008	13,880,922	14,145,423	14,186,574
	2002			
	March 31,	June 30,	September 30,	December 31,
Net sales	\$23,410,925	\$24,590,031	\$26,004,420	\$29,885,352
Gross profit	9,416,218	10,856,843	10,029,122	11,352,836
Operating income	891,591	1,810,926	1,794,724	2,483,443
Net income	675,386	1,402,312	1,857,498	2,004,057
Earnings per share (1):				
Basic	\$ 0.05	\$ 0.10	\$ 0.13	\$ 0.15
Diluted	\$ 0.05	\$ 0.10	\$ 0.13	\$ 0.15
Shares used in computing earnings per share:				
Basic	13,799,834	13,958,596	13,835,742	13,564,702
Diluted	14,370,383	14,515,073	14,045,679	13,720,409

(1) Net income per common share calculations for each of the quarters were based upon the weighted average number of shares outstanding for each period, and the sum of the quarters may not be equal to the full year net income per common share amount.

(2) During the fourth quarter of 2003, the Company recorded a \$430,042 net increase in the inventory reserve.

UNIVERSAL ELECTRONICS INC.
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Write-offs	Balance at End of Period
Valuation account for accounts receivable:				
Year Ended December 31, 2003	\$2,604,933	\$1,387,544	\$ 214,379	\$3,778,098
Year Ended December 31, 2002	\$1,798,852	\$ 886,332	\$ 80,251	\$2,604,933
Year Ended December 31, 2001	\$1,646,100	\$ 178,460	\$ 25,709	\$1,798,852
Valuation account for inventory:				
Year Ended December 31, 2003	\$1,274,836	\$1,942,312	\$ 190,706	\$3,026,442
Year Ended December 31, 2002	\$1,201,271	\$ 524,650	\$ 451,085	\$1,274,836
Year Ended December 31, 2001	\$2,607,603	\$ 342,205	\$1,748,537	\$1,201,271

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of December 31, 2003, management, including the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that all material information required to be filed in this annual report has been made known to them in a timely manner. There have been no significant changes in internal controls or in other factors that could significantly affect the Company's internal controls subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by Item 401 of Regulation S-K with respect to the directors of the Company will be contained in and is hereby incorporated by reference to the Company's definitive Proxy Statement for its 2004 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934. Information regarding executive officers of the Company is set forth in Part I of this Form 10-K.

Information required by Item 405 will be contained in and is hereby incorporated by reference to the Company's definitive Proxy Statement for its 2004 Annual Meeting of Stockholders to be filed subsequent to the date of filing this Form 10-K, under the caption "Compliance with Section 16(a) of the Exchange Act."

Code of Conduct. Universal has adopted a code of conduct that applies to all its employees, including without limitation its principal executive officer, principal financial officer and principal accounting officer. A copy of the code of conduct is included as Exhibit 14.1 to this Annual Report on Form 10-K. The code of conduct also is available on the Company's website, www.uei.com. The Company will post on its website information regarding any amendment to, or waiver from, any provision of the code of ethics that applies to its principal executive officer, principal financial officer or principal accounting officer.

ITEM 11. EXECUTIVE COMPENSATION

Information required by Item 402 of Regulation S-K will be contained in and is hereby incorporated by reference to the Company's definitive Proxy Statement for its 2004 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

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

Information required by Item 403 of Regulation S-K will be contained in and is hereby incorporated by reference to the Company's definitive Proxy Statement for its 2004 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

The following summarizes the Company's equity compensation plans at December 31, 2003:

Equity Compensation Plan Information

Plan Category	(a) Number of Securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
Equity compensation plans approved by security holders	1,042,463	\$ 11.07	1,048,648
Equity compensation plans not approved by security holders	1,619,050	13.13	24,650
Total	2,661,513	\$12.32	1,073,298

See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA- Notes to Consolidated Financial Statements — Note 10" for a description of each of the Company's stock option plans.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by Item 404 of Regulation S-K will be contained in and is hereby incorporated by reference to the Company's definitive Proxy Statement for its 2004 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

ITEM 14. Principal Accountant Fees and Services

Information required by this item will be contained in and is hereby incorporated by reference to the Company's definitive Proxy Statement for its 2004 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) List of Financial Statements

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

(a)(2) List of Financial Statement Schedules

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

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

See EXHIBIT INDEX at page 57 to Form 10-K.

(b) Reports on Form 8-K

On October 28, 2003, the Company furnished a report on Form 8-K under Item 7, Financial Statements and Exhibits, concerning the Company's announcement of its financial results for the quarter ended September 30, 2003.

SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Cypress, State of California on the 15th day of March, 2004.

UNIVERSAL ELECTRONICS INC

By: /s/Paul D. Arling

Paul D. Arling
Chairman and Chief Executive Officer

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the 15th day of March, 2004, by the following persons on behalf of the registrant and in the capacities indicated.

NAME & TITLE	SIGNATURE
Paul D. Arling <i>Chairman and Chief Executive Officer</i> (Principal Executive Officer)	/s/Paul D. Arling _____
Robert P. Lilleness <i>President and Chief Operating Officer</i>	/s/ Robert P. Lilleness _____
Bernard J. Pitz <i>Senior Vice President, Chief Financial Officer and Treasurer</i> (Principal Financial and Accounting Officer)	/s/ Bernard J. Pitz _____
Satjiv Chahil <i>Director</i>	/s/ Satjiv Chahil _____
Bruce A. Henderson <i>Director</i>	/s/ Bruce A. Henderson _____
William C. Mulligan <i>Director</i>	/s/ William C. Mulligan _____
J. C. Sparkman <i>Director</i>	/s/ J.C. Sparkman _____

EXHIBIT INDEX

Exhibit Number	Document Description
2.1	Asset Purchase Agreement dated September 1, 1998 by and among Universal Electronics Inc., H&S Management Corp., J.C. Sparkman and Steven Helbig (Incorporated by reference to Exhibit 2.1 to The Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
2.2	Contract for Sale of Participations of Unimand Espana, S.L. dated June 30, 1999 by and among Universal Electronics, BV and Diffusion Artistique et Musicale D.A.M. S.A. and Mr. Francisco Muro (Incorporated by reference to Exhibit 2.2 to The Company's Annual Report on Form 10-K for the year ended December 31, 1999 filed on March 30, 2000 (File No. 0-21044))
3.1	Restated Certificate of Incorporation of Universal Electronics Inc., as amended (Incorporated by reference to Exhibit 3.1 to the Company's Form S-1 Registration filed on or about December 24, 1992 (File No. 33-56358))
3.2	Amended and Restated By-laws of Universal Electronics Inc. (Incorporated by reference to Exhibit 3.2 to the Company's Form S-1 Registration filed on or about December 24, 1992 (File No. 33-56358))
3.3	Certificate of Amendment to Restated Certificate of Incorporation of Universal Electronics Inc. (Incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 filed on April 1, 1996 (File No. 0-21044))
4.1	Stockholder Protection Rights Agreement, dated as of May 19, 1995, between Universal Electronics Inc. and Society National Bank, as Rights Agent (Incorporated by reference to Exhibit 1 to the Company's Form 8-A Registration filed on or about June 5, 1995)
4.2	Form of Certificate of Designation and Terms of Participating Preferred Stock of Universal Electronics Inc., included as Exhibit A to the Stockholder Protection Rights Agreement, dated as of May 19, 1995, between Universal Electronics Inc. and Society National Bank, as Rights Agent (Incorporated by reference to Exhibit 2 to the Company's Form 8-A Registration filed on or about June 5, 1995)
4.3	Form of Rights Certificate and of Election to Exercise, included as Exhibit B to the Stockholder Protection Rights Agreement, dated as of May 19, 1995, between Universal Electronics Inc. and Society National Bank, as Rights Agent (Incorporated by reference to Exhibit 3 to the Company's Form 8-A Registration filed on or about June 5, 1995).
*10.1	Form of Universal Electronics Inc. 1993 Stock Incentive Plan (Incorporated by reference to Exhibit 10.13 to Amendment No. 1 to the Company's Form S-1 Registration filed on or about January 21, 1993 (File No. 33-56358))
*10.2	Form of Universal Electronics Inc. 1995 Stock Incentive Plan (Incorporated by reference to Exhibit B to the Company's Definitive Proxy Materials for the 1995 Annual Meeting of Stockholders of Universal Electronics Inc. filed on May 1, 1995 (File No. 0-21044))
*10.3	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain employees used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 1995 Stock Incentive Plan (Incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 filed on March 28, 1997 (File No. 0-21044))

Table of Contents

Exhibit Number	Document Description
*10.4	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain non-affiliated directors used in connection with options granted to the non-affiliated directors pursuant to the Universal Electronics Inc. 1995 Stock Incentive Plan (Incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 filed on March 28, 1997 (File No. 0-21044))
*10.5	Form of Universal Electronics Inc. 1996 Stock Incentive Plan (Incorporated by reference to Exhibit 4.5 to the Company's Form S-8 Registration Statement filed on March 26, 1997 (File No. 333-23985))
*10.6	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain employers used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 1996 Stock Incentive Plan (Incorporated by reference to Exhibit 4.6 to the Company's Form S-8 Registration Statement filed on March 26, 1997 (File No. 333-23985))
*10.7	Form of Salary Continuation Agreement by and between Universal Electronics Inc. and certain employees (Incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, filed on March 30, 1998 (File No. 0-21044))
*10.8	Form of Amendment to Salary Continuation Agreement by and between Universal Electronics Inc. and certain employees (Incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, filed on March 30, 1998 (File No. 0-21044))
10.9	Lease dated November 1, 1997 by and between Universal Electronics Inc. and Warland Investments Company (Incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, filed on March 30, 1998 (File No. 0-21044))
*10.10	Form of Universal Electronics Inc. 1998 Stock Incentive Plan (Incorporated by reference to Exhibit A to the Company's Definitive Proxy Materials for the 1998 Annual Meeting of Stockholders of Universal Electronics Inc. filed on April 20, 1998 (File No. 0-21044))
*10.11	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain employees used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 1998 Stock Incentive Plan (Incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
*10.12	Agreement dated August 12, 1998 by and between Universal Electronics Inc., and David M. Gabrielsen (Incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
*10.13	Stock Acquisition Representations and Covenants Certificate dated September 1, 1998 from H & S Management Corp., J.C. Sparkman and Steven Helbig (Incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
*10.14	Non-Compete Agreement dated September 1, 1998 by and among Universal Electronics Inc., H & S Management Corp., J.C. Sparkman and Steven Helbig (Incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
*10.15	Consulting Agreement dated September 1, 1998 by and between Universal Electronics Inc. and J.C. Sparkman (Incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))

Table of Contents

Exhibit Number	Document Description
10.16	Revolving Loan and Security Agreement dated October 2, 1998 by and between Universal Electronics Inc. and Bank of America National Trust and Savings Association (Incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
10.17	Copy of Revolving Note dated October 2, 1998 by and between Universal Electronics Inc. and Bank of America National Trust and Savings Association (Incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
10.18	Patent and Trademark Collateral Assignment dated October 2, 1998 by and between Universal Electronics Inc. and Bank of America National Trust and Savings Association (Incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
10.19	Purchase Agreement dated November 8, 1998 by and between Universal Electronics Inc. and General Instrument Corporation (Incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
10.20	Warrant dated November 9, 1998 by and between Universal Electronics Inc. and General Instrument Corporation (Incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
10.21	Agreement dated January 30, 1998, as amended on December 30, 1998 by and among Universal Electronics BV, a wholly owned subsidiary of Universal Electronics Inc. and Euro quality Assurance Ltd. And T. Maeizumi (Incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
10.22	Agreement dated February 3, 1998, as amended on December 30, 1998 by and among Universal Electronics BV, a wholly owned subsidiary of Universal Electronics Inc., Strand Europe Ltd. and Ashok Suri (Incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
*10.23	Form of Universal Electronics Inc. 1999 Stock Incentive Plan (Incorporated by reference to Exhibit A to the Company's Definitive Proxy Materials for the 1999 Annual Meeting of Stockholders of Universal Electronics Inc. filed on April 29, 1999 (File No. 0-21044))
*10.24	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain employees used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 1999 Stock Incentive Plan (Incorporated by reference to Exhibit A to the Company's Definitive Proxy Materials for the 1999 Annual Meeting of Stockholders of Universal Electronics Inc. filed on April 29, 1999 (File No. 0-21044))
*10.25	Form of Salary Continuation Agreement by and between Universal Electronics Inc. and certain employees (Incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 filed on March 30,2000 (File No. 0-21044))
*10.26	Form of Universal Electronics Inc. 1999A Nonqualified Stock Plan effective October 7, 1999 and subsequently amended February 1, 2000 (Incorporated by reference to Exhibit 10.42 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 filed on March 30,2000 (File No. 0-21044))

Table of Contents

Exhibit Number	Document Description
*10.27	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain employees used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 1999A Nonqualified Stock Plan (Incorporated by reference to Exhibit 10.43 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 filed on March 30,2000 (File No. 0-21044))
10.28	First Amendment to Revolving Loan and Security Agreement dated September 19, 2000 by and between Universal Electronics Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 filed on November 14, 2000 (File No. 0-21044))
10.29	Purchase Agreement dated August 25, 2000 by and between Universal Electronics BV, a wholly owned subsidiary of Universal Electronics Inc. and DAM Company (Incorporated by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 filed on March 28, 2001 (File No. 0-21044))
10.30	Extension of Revolving Loan and Security Agreement dated October 23, 2001 by and between Universal Electronics Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 10.45 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 filed on November 13, 2001 (File No. 0-21044))
*10.31	Termination Agreement dated August 1, 2001 by and between Universal Electronics Inc. and Camille K. Jayne (Incorporated by reference to Exhibit 10.46 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 filed on November 13, 2001 (File No. 0-21044))
*10.32	Consulting Agreement dated August 1, 2001 by and between Universal Electronics Inc. and Camille K. Jayne (Incorporated by reference to Exhibit 10.47 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 filed on November 13, 2001 (File No. 0-21044))
*10.33	Form of Universal Electronics Inc. 2002 Stock Incentive Plan (Incorporated by reference to Exhibit 10.49 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed on August 14, 2002 (File No. 0-21044))
*10.34	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain directors, officers and other employees used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 2002 Stock Incentive Plan (Incorporated by reference to Exhibit 10.50 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed on August 14, 2002 (File No. 0-21044))
10.35	Business Loan Agreement dated April 1, 2002 between Bank of America, N.A. and Universal Electronics Inc. (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 filed on May 15, 2002 (File No. 0-21044))
*10.36	Form of Universal Electronics Inc. 2003 Stock Incentive Plan (Incorporated by reference to Appendix B to the Company's Definitive Proxy Materials for the 2003 Annual Meeting of Stockholders of Universal Electronics Inc. filed on April 28, 2003 (File No. 0-21044))
10.37	Credit Agreement dated September 15, 2003 between Comerica Bank and Universal Electronics Inc. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 filed on November 14, 2003 (File No. 0-21044))
10.38	Promissory Agreement dated September 15, 2003 between Comerica Bank and Universal Electronics Inc. (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 filed on November 14, 2003 (File No. 0-21044))

Table of Contents

Exhibit Number	Document Description
*10.39	Form of Separation Agreement and General Release dated October 7, 2003 between Universal Electronics Inc. and Jerry Bardin (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 filed on November 14, 2003 (File No. 0-21044))
*10.40	Form of Consulting Agreement dated October 7, 2003 between Universal Electronics Inc. and Jerry Bardin (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 filed on November 14, 2003 (File No. 0-21044))
*10.41	Form of Employment and Separation Agreement and General Release dated October 31, 2003 between Universal Electronics Inc. and Mark Z. Belzowski (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 filed on November 14, 2003 (File No. 0-21044))
*10.42	Form of Executive Officer Employment Agreement dated April 23, 2003 by and between Universal Electronics Inc. and Paul D. Arling (filed herewith)
*10.43	Form of Executive Officer Employment Agreement dated April , 2003 by and between Universal Electronics Inc. and Robert P. Lilleness (filed herewith)
14.1	Code of Conduct (filed herewith)
21.1	List of Subsidiaries of the Registrant (filed herewith)
23.1	Consent of PricewaterhouseCoopers LLP (filed herewith)
24.1	Power of Attorney (filed as part of the signature page hereto)
31.1	Rule 13a-14(a) Certifications of the Chief Executive Officer (filed herewith)
31.2	Rule 13a-14(a) Certifications of the Chief Financial Officer (filed herewith)
32.1	Section 1350 Certifications of the Chief Executive Officer (filed herewith)
32.2	Section 1350 Certifications of the Chief Financial Officer (filed herewith)

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

EXECUTIVE OFFICER

EMPLOYMENT AGREEMENT

THIS EXECUTIVE OFFICER EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into this 23rd day of April, 2003 (the "Effective Date") by and between UNIVERSAL ELECTRONICS INC. (the "Employer") and PAUL D. ARLING ("Executive").

RECITALS:

WHEREAS, the Employer is presently headquartered in Cypress, California, and is engaged in the business of developing and marketing easy to use, pre-programmed universal remote control products primarily for home video and audio entertainment equipment and home security and home automation devices; and

WHEREAS, on August 27, 2000, Executive and Employer entered into that certain Executive Officer Employment Agreement (the "Prior Executive Employment Agreement"), and the Prior Executive Employment Agreement is set to expire on September 30, 2003 and the parties wish to extend such date to April 30, 2006; and

WHEREAS, Employer wishes to continue the employment of Executive as one of its key executives and avail itself of Executive's expertise, experience and capability in Employer's business as its Chairman of the Board and Chief Executive Officer to perform those duties and assume those responsibilities as set forth in this Agreement and as identified and outlined in Employer's Amended and Restated By-Laws, and to undertake such other duties and to assume such other responsibilities commensurate with Executive's designated position(s) as may be reasonably assigned to Executive from time to time by the Board of Directors of Employer; and

WHEREAS, Executive hereby accepts such offer of continued employment and extension of term and desires to be employed by the Employer subject to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants contained herein, and other good and valuable consideration, receipt of which is hereby acknowledged, the parties, intending to be legally bound, agree as follows:

1. EMPLOYMENT

Subject to all of the terms and conditions of this Agreement, effective on the Effective Date, Employer hereby employs Executive and Executive hereby accepts such employment with Employer.

2. TITLE, AUTHORITY AND DUTIES

(a) TITLE(S) AND POSITION(S). On the Effective Date of this Agreement, Executive shall be employed in the position(s) of and shall have the title(s) of Chairman of the Board

and Chief Executive Officer of Employer. Until this Agreement is terminated as provided herein, Executive will continue to occupy such position(s) and hold such title(s) until Employer and Executive shall mutually agree in writing to change any such position(s) and title(s).

(b) AUTHORITY AND DUTIES. Executive will, during the term of this Agreement, and subject to Board of Director oversight, be responsible for all aspects of Employer's business. In addition, Executive shall perform those duties and assume those responsibilities as set forth in this Agreement and as identified and outlined in Employer's Amended and Restated By-Laws, as amended as of the date of this Agreement, and undertake such other duties and assume such other responsibilities commensurate with Executive's designated position(s) as may be reasonably assigned to Executive from time to time by the Board of Directors of Employer.

(c) EXCLUSIVE SERVICES AND EFFORTS OF EXECUTIVE. During the term of this Agreement, Executive shall serve the Employer, under the direction of Board of Directors of Employer, and shall faithfully, diligently, competently and, to the best of his ability, exclusively devote his full business time, energy and attention (unless otherwise agreed to by the parties) to the business of the Employer and to the promotion of its interest. Executive recognizes that Employer's organization, business and relationship with clients, prospective clients and others having business dealings with Employer are and will be the sole property of Employer and Executive shall have no separate interests or rights with respect thereto, except as an employee of Employer. Executive may own less than a five percent (5%) interest in a supplier, client, or competitor of Employer if the supplier, client, or competitor is a publicly traded company.

(d) OTHER ACTIVITIES AND INTERESTS. Employer shall be entitled to all of the benefits, emoluments, profits, discoveries or other issues arising from, incident to and related to any and all work, services and advice of Executive to Employer in carrying out his duties and responsibilities hereunder. Executive shall not, without the written consent of Employer, directly or indirectly, render services to or for any person, firm, corporation or other entity or organization, whether or not in exchange for compensation, regardless of the form in which such compensation, if any, is paid and whether or not it is paid directly or indirectly to him if the rendering of such service would interfere with the performance of his duties and responsibilities to Employer hereunder. Notwithstanding the foregoing sentence, Executive may spend time and attention to personal investment and community activity matters and such other personal matters consistent with Employer's policies and procedures set forth within Employer's policy manual in effect from time to time which are equally applicable to all of Employer's executive employees, so long as the spending of such time and attention does not substantially interfere with the performance of his duties and responsibilities to Employer hereunder.

3. TERM OF EMPLOYMENT AND TERMINATION

(a) TERM. Unless earlier terminated as provided herein, the term of this Agreement shall commence at the start of business on the Effective Date of this Agreement and shall continue through the end of business on April 30, 2006 (the "Initial Term"). Unless

terminated by either party by giving the other party written notice of an intent not to renew this Agreement at least one hundred twenty (120) days prior to the end of the Initial Term or any successive one (1) year term, this Agreement shall automatically extend for one (1) additional year after the Initial Term and then again for a one (1) year term after each successive year.

(b) TERMINATION.

(i) BY EMPLOYER FOR JUST CAUSE. Employer may terminate the employment of Executive under this Agreement for Just Cause (as defined herein) at any time upon delivery of written notice to him setting forth, in reasonable specificity, such Just Cause. For purposes of this Agreement, and particularly this subsection 3(b)(i), "Just Cause" shall mean:

(1) The continued failure by or refusal of Executive to substantially perform his duties and responsibilities as set forth herein; or

(2) Executive's indictment for, conviction of or a guilty plea to a felony or any crime involving moral turpitude, whether or not affecting the Employer; or

(3) The engagement by Executive in personal illegal conduct which, in the reasonable judgment of Employer, by association with him, is materially and demonstrably injurious to the property and/or business of Employer; or

(4) Any material breach by Executive of the terms and conditions contained herein, including without limitation, those certain confidentiality provisions set forth in Section 16; or

(5) The commission of any act opposed to the best interests of Employer for which Executive would not be entitled to indemnification under Employer's Restated Certificate of Incorporation and Amended and Restated By-Laws, each as amended as of the date of this Agreement; or

(6) The failure by Executive to protect the best interests of Employer through Executive's gross neglect of duty.

(ii) BY EXECUTIVE FOR GOOD REASON. Executive may terminate his employment with Employer under this Agreement for Good Reason (as defined herein) at any time upon delivery of written notice to Employer setting forth, in reasonable specificity, such Good Reason(s). For purposes of this Agreement, and particularly this subsection 3(b)(ii), "Good Reason" shall mean:

(1) The attempted discontinuance or reduction in Executive's "Base Cash Salary" (as defined herein);

(2) The attempted discontinuance or reduction in Executive's bonuses and/or incentive compensation award opportunities under plans or programs applicable to him, unless such discontinuance or reduction is a result of Employer's policy applied equally to all executive employees of Employer; or

(3) The attempted discontinuance or reduction in Executive's stock option and/or stock award opportunities under plans or programs applicable to him, unless such discontinuance or reduction is a result of Employer's policy applied equally to all executive employees of Employer; or

(4) The attempted discontinuance or reduction in Executive's perquisites from those historically provided him during his tenure with the Employer and generally applicable to executive employees of Employer; or

(5) The relocation of Executive to an office (other than Employer's current headquarters) located more than fifty (50) miles from his then current office location; or

(6) The significant reduction in Executive's responsibilities and status within the Employer or change in his title(s) or position(s); or

(7) Any change in Executive's position(s) and title(s), as set forth in Section 2(a), to which Executive has not agreed in writing; or

(8) The attempted discontinuance of Executive's participation in any benefit plans maintained by Employer unless such plans are discontinued by reason of law or loss of tax deductibility to the Employer with respect to the contributions to or payments under such plans, or are discontinued as a matter of the Employer's policy applied equally to all participants; or

(9) The attempted reduction of Executive's paid vacation to less than that as provided in this Agreement; or

(10) The failure by Employer to obtain an assumption of Employer's obligations under this Agreement by any assignee of or successor to Employer, regardless of whether such entity becomes a successor to Employer as a result of merger, consolidation, sale of assets of Employer or other form of reorganization; or

(11) The occurrence of any of the items set forth in paragraphs (1) through (10) of this subsection 3(b)(ii), if, in the reasonable determination by the Executive, such occurrence happens as a result of and within the shorter of six (6) months or the remaining term of this Agreement following a "Change in Control" (as such term is defined below). For the purposes of this Agreement, a "Change in Control" shall be deemed to occur when and only when the first of the following events occurs:

a. Any "person" or "group" (as such terms are used in Sections 3(a), 3(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 (i) a trustee or other fiduciary holding securities under any employee benefit plan of the Corporation or any of its subsidiaries or (ii) 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, 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"); or

b. Individuals who are members of the Incumbent Board, cease to constitute a majority of the Board of Directors of the Corporation. The term "Incumbent Board" shall mean (i) the members of the Board of Directors on the effective date of this Agreement, and (ii) any individual who becomes a member of the Board of Directors after the effective date of this Agreement, if his or her election or nomination for election as a director was approved by the affirmative vote of a majority of the then Incumbent Board; or

c. (i) The 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 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, (ii) the sale, transfer or disposition of all or substantially all of the Corporation's assets to any other corporation or entity, or (iii) the dissolution or liquidation of the Corporation.

(iii) AUTOMATICALLY IN ACCORDANCE WITH SUBSECTION 3(A). In addition to the rights to terminate this Agreement as set forth in subsections 3(b)(i) and 3(b)(ii), this Agreement may also terminate automatically in accordance with subsection 3(a).

(iv) DISAGREEMENTS. Any disagreement concerning whether there has been Just Cause for termination by Employer or Good Reason for termination by Executive will be resolved by binding arbitration in accordance with the provisions of Section 18 of this Agreement.

(C) EFFECT OF TERMINATION. Upon termination of Executive's employment with Employer:

(i) BY EMPLOYER FOR JUST CAUSE. Executive shall not be entitled to receive payment of any salary, bonus, expenses, or other benefits beyond the date of termination and, subject to this subsection 3(c)(i), Section 17, and Executive's agreement to repay, without set off, all amounts due Employer for monies loaned Executive as set forth in Section 19, this Agreement shall become null and void effective as of the date of termination and Employer and Executive shall have no further obligation hereunder toward the other except for the payment of salary, bonus, vacation, expenses and benefits, if any, which have accrued but remain unpaid prior to and as of the termination date.

(ii) BY EXECUTIVE FOR GOOD REASON.

(1) Employer shall pay to Executive salary, bonus, vacation, expenses, and benefits, which have accrued but remain unpaid prior to and as of the termination date, within the time period for such payment specified by the laws of the state of California.

(2) In addition to such amounts under subsection 3(c)(ii)(1) above, Executive shall be paid by Employer in a lump sum within twenty (20) business days of such termination, an amount that is equal to the sum of the following:

(A) The amount equivalent to salary payments for eighteen (18) months (twenty-four (24) months if such termination is pursuant to subsection 3(b)(ii)(11)), at that rate of pay which is not less than Executive's rate of Base Cash Salary in effect immediately prior to the effective date of such termination (without regard to any attempted reduction or discontinuance of such salary); and

(B) The amount equivalent to eighteen (18) months (twenty-four (24) months if such termination is pursuant to subsection 3(b)(ii)(11)), multiplied by the greater of (i) the monthly rate of the bonus payment for the bonus period in the year immediately prior to Executive's termination date or (ii) the estimated amount of the bonus for the period which includes Executive's termination date (without regard to any attempted reduction or discontinuance of such bonus).

(3) In addition to such amounts under subsections 3(c)(ii)(1) and 3(c)(ii)(2) above, Executive shall also receive, (i) in cash, the value of the incentive compensation (including, but not limited to, employer contributions to the Universal Electronics Inc. 401(K) and Profit Sharing Plan) and (ii) the rights to receive grants of stock options and stock awards to which he would have been entitled under all incentive compensation and stock option and stock award plans maintained by Employer if Executive had remained in the employ of Employer for eighteen (18) months (twenty-four (24) months if such termination is pursuant to subsection 3(b)(ii)(11)), (without regard to any attempted reduction or discontinuance of such incentive compensation).

The amount of such payment and/or grants shall be determined as of the date of termination and shall be paid and/or issued as promptly as practicable and in no event later than thirty (30) days after such termination.

(4) Employer shall also maintain in full force and effect for the Executive's continued benefit (and, to the extent applicable, the continued benefit of her dependents) all of the employee benefits (including, not limited to, coverage under any medical and insurance plans, programs or arrangements) to which he would have been entitled under all employee benefit plans, programs or arrangements maintained by Employer if Executive had remained in the employ of Employer for eighteen (18) months (twenty-four (24) months if such termination is pursuant to subsection 3(b)(ii)(11)), (without regard to any attempted reduction or discontinuance of such benefits), or if such continuation is not possible under the terms and provisions of such plans, programs or arrangements, Employer shall arrange to provide benefits at least equal to those which Executive (and, to the extent applicable, his dependents) would have been entitled to receive if he had remained a participant in such plans, programs or for such eighteen (18) month period (twenty-four (24) months, if such termination is pursuant to subsection 3(b)(ii)(11)),(without regard to any attempted reduction or discontinuance of such benefits)..

(5) Subject to this subsection 3(c)(ii), Section 17, and Executive's agreement to repay, without set off, all amounts due Employer for monies loaned Executive as set forth in Section 19, this Agreement shall become null and void effective as of the date of termination and Employer and Executive shall have no further obligation hereunder toward the other.

(iii) PURSUANT TO SUBSECTION 3(b)(iii). Executive acknowledges and agrees that in the event that this Agreement terminates in accordance with subsection 3(b)(iii), that Employer and Executive shall have no further obligation hereunder toward the other except (1) for the payment of salary, bonus, vacation, expenses and benefits, if any, which have accrued but remain unpaid prior to and as of the termination date, (2) as set forth in Section 17, and (3) for Executive's agreement to repay, without set off, all amounts due Employer for monies loaned Executive as set forth in Section 19.

(iv) SUBMISSION OF RESIGNATIONS BY EXECUTIVE. Upon termination of this Agreement by either Employer or Executive as set forth herein and the receipt by Executive of (1) all cash amounts due him as set forth herein and (2) a written representation signed by an authorized representative of Employer that all non-cash obligations of Employer as set forth herein have been fulfilled or, as the case may be, have been commenced, Executive shall immediately submit Executive's resignation for any and all offices or directorships of Employer and/or any and all subsidiaries and affiliates of Employer (the "Resignation") which Resignation shall have retroactive application and effect to such termination date; provided however that during such time period from the effective date of such termination to the date

Executive submits the Resignation, Executive acknowledges and agrees that he does not have authority to bind Employer to any contracts or commitments and agrees not to create any obligation for Employer or bind or attempt to bind Employer in any manner whatsoever. Executive also acknowledges that he shall have no supervisory or managerial responsibility or authority from and after the effective date of the termination of this Agreement, regardless of whether he submits the Resignation or not, and agrees not to involve himself in any activities of Employer, except as may be requested by an authorized officer of Employer.

4. TOTAL COMPENSATION

While employed under this Agreement and in consideration of the services to be rendered by Executive pursuant hereto, Executive shall receive the following amounts/benefits as the sole and total compensation for the performance of his duties and obligations under this Agreement:

(a) BASE CASH SALARY. A salary at the rate of Four Hundred Twenty Thousand Dollars (US\$420,000) per annum (the "Base Cash Salary"), which shall be deemed to accrue from day to day, payable in accordance with Employer's standard payroll practices and procedures;

(b) BONUS. A bonus calculated in accordance with the plans or programs established by Employer from time to time payable in accordance with Employer's standard payroll practices and procedures; provided that any such bonuses whenever earned and paid shall be determined without regard to any material gains and losses which occur outside of the scope of Employer's ordinary operating business unless any such plans or programs explicitly include such material gains and losses within the determination of any such bonuses;

(c) STOCK OPTIONS. Stock option grants or stock awards in accordance with the plans or programs established by Employer from time to time;

(d) INCENTIVE COMPENSATION. Participation in Employer's incentive compensation plans and/or programs, including, but not limited to, receipt of employer contributions to the Universal Electronics Inc. 401(K) and Profit Sharing Plan and the right to receive stock awards and to exercise stock options under Employer's various stock option plans and/or such other plans and/or programs which are established from time to time;

(e) BENEFITS. The benefits provided by Employer to its executive employees generally, including without limitation, the benefits and perquisites included under the Universal Electronics Inc. group family health insurance program, which includes comprehensive medical insurance, dental insurance, group disability, group life insurance, and executive bonus (supplemental life); provided that the benefits provided to Executive shall be no less extensive than that provided him immediately prior to the date of this Agreement;

(f) VACATION. Four (4) weeks (twenty (20) working days) vacation with pay, determined and carried over in accordance with the policies and procedures set forth within

Employer's policy manual in effect from time to time which are equally applicable to all of Employer's executive employees;

(g) OTHER PERQUISITES. Such other employee benefits and perquisites that are provided by Employer to executives generally, provided that the other perquisites provided to Executive shall be no less extensive than the most extensive perquisites provided to any other executive employee of the Employer;

(h) D&O INSURANCE. Director and Officer Liability insurance in a reasonably sufficient amount;

(i) DISCRETIONARY BONUS. Such other amounts of compensation and/or bonus which is determined by Employer from time to time;

(j) REVIEWS. The total amount of compensation to be paid and/or provided to Executive shall be reviewed by the Board of Directors, or such committee thereof, of Employer as of the first day of each calendar year while this Agreement is in force and effect. In no event shall such review result in a reduction or discontinuance of the amount of compensation paid and/or provided to Executive hereunder except if such reduction or discontinuance occurs by reason of law or loss of tax deductibility to the Employer with respect to the contributions to such plans, or are discontinued as a matter of the Employer's policy applied equally to all participants.

5. ADJUSTMENTS IN CASE OF EXCESS PARACHUTE PAYMENTS

In the event that the aggregate present value (determined in accordance with applicable federal, state and local income tax law, rules and regulations) of all payments to be made and benefits to be provided to Executive under this Agreement and/or under any other plan, program or arrangement maintained or entered into by Employer or any of its subsidiaries shall result in "excess parachute payments" to him within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or any comparable provision of successor legislation, which subject him to the Excise Tax under Section 4999 of the Code or any comparable provision of successor legislation, Employer shall pay to Executive an additional amount (the "gross-up payment") calculated so that the net amount received by him after deduction of the Excise Tax and of all federal, state and local income taxes upon the gross-up payment shall equal the payments to be made and the benefits to be provided to him under this Agreement. For purposes of determining the amount of the gross-up payment, Executive shall be deemed to pay federal, state and local income taxes at the highest marginal rates thereof in the calendar year in which the gross-up payment is to be made, net of the maximum reduction in federal income taxes obtainable from deduction of such state and local taxes. The computations required by this Section 5 shall be made by the independent public accountants then regularly retained by Employer, in consultation with tax counsel selected by and acceptable to Executive. Employer shall pay all of its accountants' fees and the lesser of (i) one-half of Executive's tax counsel's fees or (ii) \$2,500.

6. REIMBURSEMENT FOR BUSINESS RELATED EXPENSES

Employer shall reimburse Executive for all reasonable expenses incurred and paid by him in connection with Employer's business in accordance with Employer's policy manual in effect from time to time.

7. INTEREST

In the event any payment to Executive under this Agreement is not paid within five (5) business days after it is due, such payment shall thereafter bear interest at the prime rate from time to time in effect at Bank of America, Los Angeles, California; provided however, that this provision shall not excuse the timely payment of such sums required by this Agreement.

8. NOTICES

WRITTEN NOTICES TO BE GIVEN UNDER THIS AGREEMENT SHALL BE PERSONALLY DELIVERED OR SENT BY OVERNIGHT COURIER (SUCH AS FEDERAL EXPRESS, DHL OR UPS AND THE LIKE) OR BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO THE ADDRESSES SET FORTH BELOW:

To Employer:
Universal Electronics Inc.
6101 Gateway Drive
Cypress, California 90630
Attn.: Corporate Secretary

With a required copy to:
Universal Electronics Inc.
6101 Gateway Drive
Cypress, California 90630
Attn: The Board of Directors

To Executive:
Mr. Paul D. Arling
At his last known address as reflected in Employer's records

9. SEVERABILITY

If any one or more of the provisions contained in this Agreement shall be invalid, illegal or unenforceable in any respect under applicable law, the validity, legality and enforceability of the remaining provisions contained herein shall not, in any way, be ineffective or impaired thereby.

10. GOVERNING LAW

This Agreement shall be governed by the law of the state of California without regard to the conflicts of laws provisions of the state of California.

11. WAIVER

The failure of either party to insist in any one or more instances on strict performance of any of this Agreement's provisions, or to exercise or enforce any right, remedy or obligation under this Agreement, shall not be construed as a waiver or relinquishment of any right, remedy or obligation, and the right, remedy or obligation shall continue in full force and affect.

12. ENTIRE AGREEMENT AND MODIFICATION

This Agreement, together with that certain Nonrecourse Secured Promissory Note described more fully in Section 19 of this Agreement, sets forth the entire agreement of the parties concerning the employment of Executive by the Employer and any oral or written statements, representations, agreements or understandings made or entered into prior to or contemporaneously with the execution of this Agreement, including without limitation the Prior Executive Employment Agreement, are hereby rescinded, revoked, and rendered null and void by the parties. This Agreement may be modified only by a written instrument duly executed by each party hereto.

13. ASSIGNMENT

This Agreement shall be binding upon the parties hereto, their respective heirs, personal representatives, executors, administrators, successors and assigns. Any such assignee or successor of Employer shall, within ten (10) business days after receipt of a written request by Executive, send to Executive its acknowledgment and agreement that such assignee or successor expressly assumes all of Employer's obligations under this Agreement as if such assignee or successor was the original employer and the term "Employer" as used herein shall include any such assignee or successor.

14. INTERPRETATION OF AGREEMENT

The parties have cooperated in the drafting and preparation of this Agreement. Therefore, the parties hereto agree that, in any construction to be made of the Agreement the same shall not be construed against any of the parties by reason of its drafting or the identity of its preparer. Each of the parties hereto has carefully read this Agreement and has been given the opportunity to have it reviewed by legal counsel and negotiate its terms.

15. SPECIFIC OBLIGATIONS OF THE EXECUTIVE

In addition to the general duties set forth herein, Executive shall use his reasonable efforts for the benefit of Employer by whatever business activities Employer finds reasonably appropriate to maintain and improve Employer's standing in the community generally and among current and prospective customers, including such entertainment for business purposes as Executive and Employer mutually consider appropriate. Executive shall undertake business development endeavors as reasonably directed by Employer.

16. NONDISCLOSURE AND NONAPPROPRIATION OF INFORMATION AND NONCOMPETITION

(a) Executive recognizes and acknowledges that while employed by Employer, he has and will have access to, learn, be provided with and, in some cases, prepare and create certain confidential, proprietary business information and/or trade secrets for Employer, including, but not limited to, lists, files and forms, all of which are of substantial value to Employer and its business. Notwithstanding any other provision of this Agreement, Employer's confidential, proprietary business information and/or trade secrets do not include any information (i) which is in the public domain at the time Employer discloses it to Executive; (ii) which, after Employer discloses it to Executive, becomes part of the public domain through publication or otherwise, other than by Executive's act; (iii) which was in Executive's possession prior to its disclosure to Executive by the Employer; or (iv) which Executive receives from a third party having the right to make such disclosure, without restriction on the disclosure or use thereof. In this connection, Executive expressly covenants and agrees, during his employment with Employer, to:

(i) Hold in a fiduciary capacity and not reveal, communicate, use or cause to be used for his own benefit or divulge any trade secrets, or other proprietary right now or hereafter owned by the Employer;

(ii) Not sell, exchange or give away, or otherwise dispose of any trade secrets now or hereafter owned by Employer, whether the same shall or may have been originated or discovered by Employer or otherwise;

(iii) Not reveal, divulge or make known to any person, firm, corporation or other entity any trade secret of Employer, except as required to do so by law, regulation, subpoena, or court order, provided, however, that to the extent that Executive can, Executive shall first give written notice to Employer so that Employer may seek an appropriate protective order;; and

(iv) Not reveal, divulge or make known to any person (other than his spouse, attorney, tax advisors, and/or accountant), firm, company or corporation any of the terms of this Agreement, unless required to do so by law, regulation, subpoena, or court order and provided that it shall not be a breach of this Agreement for Executive to present this Agreement under seal to any court or arbitral tribunal called upon to enforce it.

(b) To protect the legitimate business interests of Employer from unfair competition by Employee, Employee expressly covenants and agrees that during his employment with Employer and continuing thereafter for a period of two (2) years, Employee shall not, directly or indirectly:

(i) Solicit, interfere with or endeavor to entice away from Employer any person, firm, company or corporation that, at the time Employee's employment with Employer ceased, was doing business with Employer and accounted for ten percent (10%) or more of Employer's gross revenue as determined by Employer's book and records; and

(ii) Solicit for hire, either directly or indirectly, or hire as a result of such solicitation, any key employee of Employer, except that Executive may hire any such key employee so long as such hiring was made as a result of a general solicitation of employment through typical solicitation means, such as advertisements and the like, or such solicitation was initiated by such key employee.

(c) Executive further covenants and agrees to return to Employer either before or immediately upon his termination of employment with Employer any and all written information, material or equipment that constitutes, contains or relates to Employer's trade secrets and which relate to Employer's business which are in Executive's possession, custody and control, whether confidential or not, including any and all copies thereof which may have been made by or for Executive. Executive shall maintain no copies thereof after termination of his employment.

17. SURVIVAL OF OBLIGATIONS

In addition to those specific provisions of Section 3, which by their express terms survive the termination of this Agreement under certain circumstances, the terms and conditions and obligations of the parties as contained or described in Sections 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 16, 17, 18, 19, and 20 shall survive the termination of this Agreement and, notwithstanding such termination, shall remain fully binding on the parties hereto.

18. ARBITRATION

Except for any claim or dispute in which equitable relief under this Agreement is sought, any disagreement, dispute or controversy concerning whether there has been Just Cause, Good Reason or breach of any of the terms of this Agreement shall be settled exclusively and finally by arbitration. The arbitration shall be administered by the American Arbitration Association in accordance with its National Rules for the Resolution of Employment Disputes then in effect (the "AAA Rules"). The arbitration shall be conducted in Los Angeles, California, or in such other city as the parties to the dispute may designate by mutual consent. The arbitral tribunal shall consist of three arbitrators (or such lesser number as may be agreed upon by the parties) selected according to the procedure set forth in the AAA Rules, with the chairman of the arbitral tribunal selected in accordance with the AAA Rules. Except as otherwise set forth in this Agreement, the fees and expenses of the arbitral tribunal in connection with such arbitration shall be borne by the parties to the dispute as shall be determined by the arbitral tribunal.

19. RELOCATION LOAN MADE TO EXECUTIVE

On or about April 22, 1999, Employer loaned the principal sum of \$200,000 to Executive, which loan is evidenced by that certain Nonrecourse Secured Promissory Note signed by Executive in favor of Employer dated April 22, 1999 and notarized on April 28, 1999 (the "Note"), together with that certain Deed of Trust with Assignment of Rents (Short Form) signed by Executive and Executive's spouse for the benefit of Employer dated April __, 1999 and notarized on April 28, 1999 (the "Deed"), copies of which are attached hereto as Exhibit A. Executive represents and warrants that immediately prior to the execution of this Agreement, he was not in default or in any

other way in breach of any of the terms of the Note or the Deed. Executive hereby agrees, acknowledges and reaffirms (i) his obligations to Employer pursuant to the Note and the Deed, (ii) that any reference made within the Note and/or the Deed to the "Executive Employment Agreement" shall mean this Agreement and not the Prior Executive Employment Agreement, and (iii) that except as specifically modified by this Agreement, the Note and the Deed shall be and remain in full force and effect in accordance with their respective terms and Executive shall fully perform all of his obligations under the Note and the Deed. So long as Executive is not in default or in any other way in breach of any of the terms of the Note or the Deed, Employer shall, on each December 15 during the term of such Note and on the payment of principal of the Note, pay to Executive an amount equal to 1.045 times the amount of interest due by Executive under the Note as of each of such dates (the "Interest Compensation"), regardless of whether Executive is employed by Employer on such dates. Such loan and such Interest Compensation is in addition to all amounts to be paid and/or reimbursed to Executive pursuant to Employer's Executive Relocation Policy

* * * * *

Signatures contained on the next page

IN WITNESS WHEREOF, the parties have executed the Agreement as of the Effective Date

Signed and acknowledged in the presence of:

UNIVERSAL ELECTRONICS INC.

Corporate Secretary

By: _____
An Authorized Member of the
Compensation Committee of the
Board of Directors

PAUL D. ARLING

Signature

EXHIBIT A

COPY OF NONRECOURSE SECURED PROMISSORY NOTE
AND
DEED OF TRUST WITH ASSIGNMENT OF RENTS (SHORT FORM)

PURSUANT TO SECTION 19

[Note: See Prior Executive Employment Agreement]

EXECUTIVE OFFICER
EMPLOYMENT AGREEMENT

THIS EXECUTIVE OFFICER EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into this ____ day of April, 2003 (the "Effective Date") by and between UNIVERSAL ELECTRONICS INC. (the "Employer") and ROBERT P. LILLENES ("Executive").

RECITALS:

WHEREAS, the Employer is presently headquartered in Cypress, California, and is engaged in the business of developing and marketing easy to use, pre-programmed universal remote control products primarily for home video and audio entertainment equipment and home security and home automation devices; and

WHEREAS, on May 14, 2001, Executive and Employer entered into that certain Executive Officer Employment Agreement, (the "Prior Executive Employment Agreement"), and the Prior Executive Employment Agreement, by reason of its automatic extension provision, is set to expire on May 13, 2003 and the parties wish to extend such date to April 30, 2006; and

WHEREAS, Employer wishes to continue the employment of Executive as one of its key executives and avail itself of Executive's expertise, experience and capability in Employer's business as its President and Chief Operating Officer to perform those duties and assume those responsibilities as set forth in this Agreement and as identified and outlined in Employer's Amended and Restated By-Laws, and to undertake such other duties and to assume such other responsibilities commensurate with Executive's designated position(s) as may be reasonably assigned to Executive from time to time by the Chief Executive Officer of Employer and/or the Board of Directors of Employer; and

WHEREAS, Executive hereby accepts such offer of continued employment and extension of term and desires to be employed by the Employer subject to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants contained herein, and other good and valuable consideration, receipt of which is hereby acknowledged, the parties, intending to be legally bound, agree as follows:

1. EMPLOYMENT

Subject to all of the terms and conditions of this Agreement, on the Effective Date, Employer hereby employs Executive and Executive hereby accepts such employment with Employer.

2. TITLE, AUTHORITY AND DUTIES

(a) TITLE(S) AND POSITION(S). On the Effective Date of this Agreement, Executive shall be employed in the position(s) of and shall have the title(s) of President and Chief Operating Officer of Employer. Until this Agreement is terminated as provided herein, Executive will continue to occupy such position(s) and hold such title(s) until Employer and Executive shall mutually agree in writing to change any such position(s) and title(s).

(b) AUTHORITY AND DUTIES. Executive will, during the term of this Agreement, and subject to Chief Executive Officer and/or Board of Director oversight, perform those duties and assume those responsibilities as set forth in this Agreement and as identified and outlined in Employer's Amended and Restated By-Laws, as amended as of the date of this Agreement, report to the Chief Executive Officer of Employer, and undertake such other duties and assume such other responsibilities commensurate with Executive's designated position(s) as may be reasonably assigned to Executive from time to time by the Chief Executive Officer of Employer and/or the Board of Directors of Employer.

(c) EXCLUSIVE SERVICES AND EFFORTS OF EXECUTIVE. During the term of this Agreement, Executive shall serve the Employer, under the direction of Chief Executive Officer of Employer, and shall faithfully, diligently, competently and, to the best of his ability, exclusively devote his full business time, energy and attention (unless otherwise agreed to by the parties) to the business of the Employer and to the promotion of its interest. Executive recognizes that Employer's organization, business and relationship with clients, prospective clients and others having business dealings with Employer are and will be the sole property of Employer and Executive shall have no separate interests or rights with respect thereto, except as an employee of Employer. Executive may own less than a five percent (5%) interest in a supplier, client, or competitor of Employer if the supplier, client, or competitor is a publicly traded company.

(d) OTHER ACTIVITIES AND INTERESTS. Employer shall be entitled to all of the benefits, emoluments, profits, discoveries or other issues arising from, incident to and related to any and all work, services and advice of Executive to Employer in carrying out his duties and responsibilities hereunder. Executive shall not, without the written consent of Employer, directly or indirectly, render services to or for any person, firm, corporation or other entity or organization, whether or not in exchange for compensation, regardless of the form in which such compensation, if any, is paid and whether or not it is paid directly or indirectly to him if the rendering of such service would interfere with the performance of his duties and responsibilities to Employer hereunder. Notwithstanding the foregoing sentence, Executive may spend time and attention to personal investment and community activity matters and such other personal matters consistent with Employer's policies and procedures set forth within Employer's policy manual in effect from time to time which are equally applicable to all of Employer's executive employees, so long as the spending of such time and attention does not substantially interfere with the performance of his duties and responsibilities to Employer hereunder.

3. TERM OF EMPLOYMENT AND TERMINATION

(a) TERM. Unless earlier terminated as provided herein, the term of this Agreement shall commence at the start of business on the Effective Date of this Agreement and shall continue through the end of business on April 30, 2006 (the "Initial Term"). Unless terminated by either party by giving the other party written notice of an intent not to renew this Agreement at least one hundred twenty (120) days prior to the end of the Initial Term or any successive one (1) year term, this Agreement shall automatically extend for one (1) additional year after the Initial Term and then again for a one (1) year term after each successive year.

(b) TERMINATION.

(i) BY EMPLOYER FOR JUST CAUSE. Employer may terminate the employment of Executive under this Agreement for Just Cause (as defined herein) at any time upon delivery of written notice to him setting forth, in reasonable specificity, such Just Cause. For purposes of this Agreement, and particularly this subsection 3(b)(i), "Just Cause" shall mean:

(1) The continued failure by or refusal of Executive to substantially perform his duties and responsibilities as set forth herein; or

(2) Executive's indictment for, conviction of, or a guilty plea to a felony or any crime involving moral turpitude, whether or not affecting the Employer; or

(3) The engagement by Executive in personal illegal conduct which, in the reasonable judgment of Employer, by association with him, is materially and demonstrably injurious to the property and/or business of Employer; or

(4) Any material breach by Executive of the terms and conditions contained herein, including without limitation, those certain confidentiality provisions set forth in Section 16; or

(5) The commission of any act opposed to the best interests of Employer for which Executive would not be entitled to indemnification under Employer's Restated Certificate of Incorporation and Amended and Restated By-Laws, each as amended as of the date of this Agreement; or

(6) The failure by Executive to protect the best interests of Employer through Executive's gross neglect of duty.

(ii) BY EXECUTIVE FOR GOOD REASON. Executive may terminate his employment with Employer under this Agreement for Good Reason (as defined herein) at any time upon delivery of written notice to Employer setting forth, in

reasonable specificity, such Good Reason(s). For purposes of this Agreement, and particularly this subsection 3(b)(ii), "Good Reason" shall mean:

- (1) The attempted discontinuance or reduction in Executive's "Base Cash Salary" (as defined herein);
- (2) The attempted discontinuance or reduction in Executive's bonuses and/or incentive compensation award opportunities under plans or programs applicable to him, unless such discontinuance or reduction is a result of Employer's policy applied equally to all executive employees of Employer; or
- (3) The attempted discontinuance or reduction in Executive's stock option and/or stock award opportunities under plans or programs applicable to him, unless such discontinuance or reduction is a result of Employer's policy applied equally to all executive employees of Employer; or
- (4) The attempted discontinuance or reduction in Executive's perquisites from those historically provided him during his tenure with the Employer and generally applicable to executive employees of Employer; or
- (5) The relocation of Executive to an office (other than Employer's current headquarters) located more than fifty (50) miles from his then current office location; or
- (6) The significant reduction in Executive's responsibilities and status within the Employer; or
- (7) Any change in Executive's position(s) and title(s), as set forth in Section 2(a), to which Executive has not agreed in writing; or
- (8) If Paul D. Arling shall cease being the Chief Executive Officer of the Employer and Executive is not promoted to the position of Chief Executive Officer of the Employer within six months thereafter; or
- (9) The attempted discontinuance of Executive's participation in any benefit plans maintained by Employer unless such plans are discontinued by reason of law or loss of tax deductibility to the Employer with respect to the contributions to or payments under such plans, or are discontinued as a matter of the Employer's policy applied equally to all participants; or
- (10) The attempted reduction of Executive's paid vacation to less than that as provided in this Agreement; or
- (11) The failure by Employer to obtain an assumption of Employer's obligations under this Agreement by any assignee of or successor to Employer, regardless of whether such entity becomes a successor to

Employer as a result of merger, consolidation, sale of assets of Employer or other form of reorganization; or

(12) The occurrence of any of the items set forth in paragraphs (1) through (11) of this subsection 3(b)(ii), if, in the reasonable determination by the Executive, such occurrence happens as a result of and within the shorter of six (6) months or the remaining term of this Agreement following a "Change in Control" (as such term is defined below). For the purposes of this Agreement, a "Change in Control" shall be deemed to occur when and only when the first of the following events occurs:

a. Any "person" or "group" (as such terms are used in Sections 3(a), 3(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 (i) a trustee or other fiduciary holding securities under any employee benefit plan of the Corporation or any of its subsidiaries or (ii) 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, 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"); or

b. Individuals who are members of the Incumbent Board, cease to constitute a majority of the Board of Directors of the Corporation. The term "Incumbent Board" shall mean (i) the members of the Board of Directors on the effective date of this Agreement, and (ii) any individual who becomes a member of the Board of Directors after the effective date of this Agreement, if his or her election or nomination for election as a director was approved by the affirmative vote of a majority of the then Incumbent Board; or

c. (i) The 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 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, (ii) the sale, transfer or disposition of all or substantially all of the Corporation's assets to any other corporation or entity, or (iii) the dissolution or liquidation of the Corporation.

(iv) AUTOMATICALLY IN ACCORDANCE WITH SUBSECTION 3(a). In addition to the rights to terminate this Agreement as set forth in subsections 3(b)(i) and 3(b)(ii), this Agreement may also terminate automatically in accordance with subsection 3(a).

(iv) DISAGREEMENTS. Any disagreement concerning whether there has been Just Cause for termination by Employer or Good Reason for termination by Executive will be resolved by binding arbitration in accordance with the provisions of Section 18 of this Agreement.

(c) EFFECT OF TERMINATION. Upon termination of Executive's employment with Employer:

(i) BY EMPLOYER FOR JUST CAUSE. Executive shall not be entitled to receive payment of any salary, bonus, expenses, or other benefits beyond the date of termination and, subject to this subsection 3(c)(i), and Section 17, this Agreement shall become null and void effective as of the date of termination and Employer and Executive shall have no further obligation hereunder toward the other except for the payment of salary, bonus, vacation, expenses and benefits, if any, which have accrued but remain unpaid prior to and as of the termination date.

(ii) BY EXECUTIVE FOR GOOD REASON.

(1) Employer shall pay to Executive salary, bonus, vacation, expenses, and benefits, which have accrued but remain unpaid prior to and as of the termination date, within the time period for such payment specified by the laws of the state of California.

(2) In addition to such amounts under subsection 3(c)(ii)(1) above, Executive shall be paid by Employer in a lump sum within twenty (20) business days of such termination, an amount that is equal to the sum of the following:

(A) The amount equivalent to salary payments for eighteen (18) months (twenty-four (24) months if such termination is pursuant to subsection 3(b)(ii)(12)), at that rate of pay which is not less than Executive's rate of Base Cash Salary in effect immediately prior to the effective date of such termination (without regard to any attempted reduction or discontinuance of such salary); and

(B) The amount equivalent to eighteen (18) months (twenty-four (24) months if such termination is pursuant to subsection 3(b)(ii)(12)), multiplied by the greater of (i) the monthly rate of the bonus payment for the bonus period in the year immediately prior to Executive's termination date or (ii) the estimated amount of the bonus for the period which includes Executive's termination date (without regard to any attempted reduction or discontinuance of such bonus).

(3) In addition to such amounts under subsections 3(c)(ii)(1) and 3(c)(ii)(2) above, Executive shall also receive, (i) in cash, the value of the incentive compensation (including, but not limited to, employer contributions to the Universal Electronics Inc. 401(K) and Profit Sharing Plan) and (ii) the

rights to receive grants of stock options and stock awards to which he would have been entitled under all incentive compensation and stock option and stock award plans maintained by Employer if Executive had remained in the employ of Employer for twelve (12) months (without regard to any attempted reduction or discontinuance of such incentive compensation). The amount of such payment and/or grants shall be determined as of the date of termination and shall be paid and/or issued as promptly as practicable and in no event later than thirty (30) days after such termination.

(4) Employer shall also maintain in full force and effect for the Executive's continued benefit (and, to the extent applicable, the continued benefit of his dependents) all of the employee benefits (including, but not limited to, coverage under any medical and insurance plans, programs or arrangements) to which he would have been entitled under all employee benefit plans, programs or arrangements maintained by Employer if Executive had remained in the employ of Employer for eighteen (18) months (twenty-four (24) months if such termination is pursuant to subsection 3(b)(ii)(12)), (without regard to any attempted reduction or discontinuance of such benefits), or if such continuation is not possible under the terms and provisions of such plans, programs or arrangements, Employer shall arrange to provide benefits at least equal to those which Executive (and, to the extent applicable, his dependents) would have been entitled to receive if he had remained a participant in such plans, programs or for such eighteen (18) months period (twenty-four (24) months if such termination is pursuant to subsection 3(b)(ii)(12)), (without regard to any attempted reduction or discontinuance of such benefits).

(4) Subject to this subsection 3(c)(ii), and Section 17, this Agreement shall become null and void effective as of the date of termination and Employer and Executive shall have no further obligation hereunder toward the other.

(iii) PURSUANT TO SUBSECTION 3(b)(iii). Executive acknowledges and agrees that in the event that this Agreement terminates in accordance with subsection 3(b)(iii), that Employer and Executive shall have no further obligation hereunder toward the other except (1) for the payment of salary, bonus, vacation, expenses and benefits, if any, which have accrued but remain unpaid prior to and as of the termination date and (2) as set forth in Section 17.

(iv) SUBMISSION OF RESIGNATION BY EXECUTIVE. Upon termination of this Agreement by either Employer or Executive as set forth herein and the receipt by Executive of (1) all cash amounts due him as set forth herein and (2) a written representation signed by an authorized representative of Employer that all non-cash obligations of Employer as set forth herein have been fulfilled or, as the case may be, have been commenced, Executive shall immediately submit Executive's resignation for any and all offices or directorships of Employer and/or any and all subsidiaries and affiliates of Employer (the "Resignation") which Resignation shall have

retroactive application and effect to such termination date; provided however that during such time period from the effective date of such termination to the date Executive submits the Resignation, Executive acknowledges and agrees that he does not have authority to bind Employer to any contracts or commitments and agrees not to create any obligation for Employer or bind or attempt to bind Employer in any manner whatsoever. Executive also acknowledges that he shall have no supervisory or managerial responsibility or authority from and after the effective date of the termination of this Agreement, regardless of whether he submits the Resignation or not, and agrees not to involve himself in any activities of Employer, except as may be requested by an authorized officer of Employer.

4. TOTAL COMPENSATION

While employed under this Agreement and in consideration of the services to be rendered by Executive pursuant hereto, Executive shall receive the following amounts/benefits as the sole and total compensation for the performance of his duties and obligations under this Agreement:

(a) BASE CASH SALARY. A salary at the rate of Three Hundred Thousand Dollars (US\$300,000) per annum (the "Base Cash Salary"), which shall be deemed to accrue from day to day, payable in accordance with Employer's standard payroll practices and procedures;

(b) BONUS. A bonus calculated in accordance with the plans or programs established by Employer from time to time, payable in accordance with Employer's standard payroll practices and procedures; provided that any such bonuses whenever earned and paid shall be determined without regard to any material gains and losses which occur outside of the scope of Employer's ordinary operating business unless any such plans or programs explicitly include such material gains and losses within the determination of any such bonuses;

(c) STOCK OPTIONS. Stock option grants or stock awards in accordance with the plans or programs established by Employer from time to time;

(d) INCENTIVE COMPENSATION. Participation in Employer's incentive compensation plans and/or programs, including, but not limited to, receipt of employer contributions to the Universal Electronics Inc. 401(K) and Profit Sharing Plan;

(e) BENEFITS. The benefits provided by Employer to its executive employees generally, including without limitation, the benefits and perquisites included under the Universal Electronics Inc. group family health insurance program in effect from time to time, which includes comprehensive medical insurance, dental insurance, group disability, group life insurance, and executive bonus (supplemental life);

(f) VACATION. Three (3) weeks (fifteen (15) working days) vacation with pay, determined and carried over in accordance with the policies and procedures set forth within Employer's policy manual in effect from time to time which are equally applicable to all of Employer's executive employees;

(g) OTHER PERQUISITES. Such other employee benefits and perquisites that are provided by Employer to executives generally, provided that the other perquisites provided to Executive shall be no less extensive than the most extensive perquisites provided to any other executive employee of the Employer;

(h) D&O INSURANCE. Director and Officer Liability insurance in a reasonably sufficient amount;

(i) DISCRETIONARY BONUS. Such other amounts of compensation and/or bonus which is determined by Employer from time to time;

(j) REVIEWS. The total amount of compensation to be paid and/or provided to Executive shall be reviewed by the Chief Executive Officer and the Board of Directors, or such committee thereof, of Employer as of the first day of each calendar year while this Agreement is in force and effect. In no event shall such review result in a reduction or discontinuance of the amount of compensation paid and/or provided to Executive hereunder except if such reduction or discontinuance occurs by reason of law or loss of tax deductibility to the Employer with respect to the contributions to such plans, or are discontinued as a matter of the Employer's policy applied equally to all participants.

5. ADJUSTMENTS IN CASE OF EXCESS PARACHUTE PAYMENTS

In the event that the aggregate present value (determined in accordance with applicable federal, state and local income tax law, rules and regulations) of all payments to be made and benefits to be provided to Executive under this Agreement and/or under any other plan, program or arrangement maintained or entered into by Employer or any of its subsidiaries shall result in "excess parachute payments" to him within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or any comparable provision of successor legislation, which subject him to the Excise Tax under Section 4999 of the Code or any comparable provision of successor legislation, Employer shall pay to Executive an additional amount (the "gross-up payment") calculated so that the net amount received by him after deduction of the Excise Tax and of all federal, state and local income taxes upon the gross-up payment shall equal the payments to be made and the benefits to be provided to him under this Agreement. For purposes of determining the amount of the gross-up payment, Executive shall be deemed to pay federal, state and local income taxes at the highest marginal rates thereof in the calendar year in which the gross-up payment is to be made, net of the maximum reduction in federal income taxes obtainable from deduction of such state and local taxes. The computations required by this Section 5 shall be made by the independent public accountants then regularly retained by Employer, in consultation with tax counsel selected by and acceptable to Executive. Employer shall pay all of its accountants' fees and the lesser of (i) one-half of Executive's tax counsel's fees or (ii) \$2,500.

6. REIMBURSEMENT FOR BUSINESS RELATED EXPENSES

Employer shall reimburse Executive for all reasonable expenses incurred and paid by him in connection with Employer's business in accordance with Employer's policy manual in effect from time to time.

7. INTEREST

In the event any payment to Executive under this Agreement is not paid within five (5) business days after it is due, such payment shall thereafter bear interest at the prime rate from time to time in effect at Bank of America, Los Angeles, California; provided however, that this provision shall not excuse the timely payment of such sums required by this Agreement.

8. NOTICES

WRITTEN NOTICES TO BE GIVEN UNDER THIS AGREEMENT SHALL BE PERSONALLY DELIVERED OR SENT BY PRE-PAID OVERNIGHT COURIER (SUCH AS FEDERAL EXPRESS, DHL OR UPS AND THE LIKE) OR BY POSTAGE PAID, REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO THE ADDRESSES SET FORTH BELOW:

To Employer:
Universal Electronics Inc.
6101 Gateway Drive
Cypress, California 90630
Attn.: Corporate Secretary

With a required copy to:
Universal Electronics Inc.
6101 Gateway Drive
Cypress, California 90630
Attn: Chief Executive Officer

To Executive:
Mr. Robert P. Lilleness
At his last known address as reflected in Employer's records

9. SEVERABILITY

If any one or more of the provisions contained in this Agreement shall be invalid, illegal or unenforceable in any respect under applicable law, the validity, legality and enforceability of the remaining provisions contained herein shall not, in any way, be ineffective or impaired thereby.

10. GOVERNING LAW

This Agreement shall be governed by the law of the state of California without regard to the conflicts of laws provisions of the state of California.

11. WAIVER

The failure of either party to insist in any one or more instances on strict performance of any of this Agreement's provisions, or to exercise or enforce any right, remedy or obligation under this Agreement, shall not be construed as a waiver or relinquishment of any right, remedy or obligation, and the right, remedy or obligation shall continue in full force and affect.

12. ENTIRE AGREEMENT AND MODIFICATION

This Agreement sets forth the entire agreement of the parties concerning the employment of Executive by the Employer and any oral or written statements, representations, agreements or understandings made or entered into prior to or contemporaneously with the execution of this Agreement, including without limitation the Prior Executive Employment Agreement, are hereby rescinded, revoked, and rendered null and void by the parties. This Agreement may be modified only by a written instrument duly executed by each party hereto.

13. ASSIGNMENT

This Agreement shall be binding upon the parties hereto, their respective heirs, personal representatives, executors, administrators, successors and assigns. Any such assignee or successor of Employer shall, within ten (10) business days after receipt of a written request by Executive, send to Executive its acknowledgment and agreement that such assignee or successor expressly assumes all of Employer's obligations under this Agreement as if such assignee or successor was the original employer and the term "Employer" as used herein shall include any such assignee or successor.

14. INTERPRETATION OF AGREEMENT

The parties have cooperated in the drafting and preparation of this Agreement. Therefore, the parties hereto agree that, in any construction to be made of the Agreement the same shall not be construed against any of the parties by reason of its drafting or the identity of its preparer. Each of the parties hereto has carefully read this Agreement and has been given the opportunity to have it reviewed by legal counsel and negotiate its terms.

15. SPECIFIC OBLIGATIONS OF THE EXECUTIVE

In addition to the general duties set forth herein, Executive shall use his reasonable efforts for the benefit of Employer by whatever business activities Employer finds reasonably appropriate to maintain and improve Employer's standing in the community generally and among current and prospective customers, including such entertainment for business purposes as Executive and Employer mutually consider appropriate. Executive shall undertake business development endeavors as reasonably directed by Employer. Executive (i) knows no reason why he may not be hired by Employer or cannot carry out his obligations under this Agreement, (ii) is not under an obligation, contractual or otherwise, that would prohibit Executive from carrying out his obligations hereunder, and (iii) will not breach or otherwise violate any agreement to which he is a party by entering into and/or performing his obligations under this Agreement.

16. NONDISCLOSURE AND NONAPPROPRIATION OF INFORMATION AND NONCOMPETITION

(a) Executive recognizes and acknowledges that while employed by Employer, he has and will have access to, learn, be provided with and, in some cases, prepare and create certain confidential, proprietary business information and/or trade secrets for Employer, including, but not limited to, lists, files and forms, all of which are of substantial value to Employer and its business. Notwithstanding any other provision of this Agreement,

Employer's confidential, proprietary business information and/or trade secrets do not include any information (i) which is in the public domain at the time Employer discloses it to Executive; (ii) which, after Employer discloses it to Executive, becomes part of the public domain through publication or otherwise, other than by Executive's act; (iii) which was in Executive's possession prior to its disclosure to Executive by the Employer; or (iv) which Executive receives from a third party having the right to make such disclosure, without restriction on the disclosure or use thereof. In this connection, Executive expressly covenants and agrees that during his employment with Employer and other than in carrying out his duties to Employer, to:

(i) Hold in a fiduciary capacity and not reveal, communicate, use or cause to be used for his own benefit or divulge any trade secrets, or other proprietary right now or hereafter owned by the Employer;

(ii) Not sell, exchange or give away, or otherwise dispose of any trade secrets now or hereafter owned by Employer, whether the same shall or may have been originated or discovered by Executive or otherwise;

(iii) Not reveal, divulge or make known to any person, firm, corporation or other entity any trade secret of Employer, except as required to do so by law, regulation, subpoena, or court order, provided, however, that to the extent that Executive can, Executive shall first give written notice to Employer so that Employer may seek an appropriate protective order; and

(iv) Not reveal, divulge or make known to any person (other than his spouse, attorney, tax advisors, and/or accountant), firm, company or corporation any of the terms of this Agreement, unless required to do so by law, regulation, subpoena, or court order and provided that it shall not be a breach of this Agreement for Executive to present this Agreement under seal to any court or arbitral tribunal called upon to enforce it.

(b) To protect the legitimate business interests of Employer from unfair competition by Employee, Employee expressly covenants and agrees that during his employment with Employer and continuing thereafter for a period of two (2) years, Employee shall not, directly or indirectly:

(i) (1) Accept employment of any kind or nature, including without limitation in a consultancy role, with, (2) render services to or for, (3) engage in, undertake or carry out any business activity with, or (4) obtain an ownership interest in ICX International, Inc., U S Electronics Components Corporation, or Philips Consumer Electronics BV, or any of such companies' parents, subsidiaries and affiliates;

(ii) Solicit, interfere with or endeavor to entice away from Employer any person, firm, company or corporation that, at the time Employee's employment with Employer ceased, was doing business with Employer and accounted for ten percent

(10%) or more of Employer's gross revenue as determined by Employer's books and records; and

(iii) Solicit for hire, either directly or indirectly, or hire as a result of such solicitation, any key employee of Employer, except that Executive may hire any such key employee so long as such hiring was made as a result of a general solicitation of employment through typical solicitation means, such as advertisements and the like, or such solicitation was initiated by such key employee.

(c) Executive further covenants and agrees to return to Employer either before or immediately upon his termination of employment with Employer any and all written information, material or equipment that constitutes, contains or relates to Employer's trade secrets and which relate to Employer's business which are in Executive's possession, custody and control, whether confidential or not, including any and all copies thereof which may have been made by or for Executive. Executive shall maintain no copies thereof after termination of his employment.

17. SURVIVAL OF OBLIGATIONS

In addition to those specific provisions of Section 3, which by their express terms survive the termination of this Agreement under certain circumstances, the terms and conditions and obligations of the parties as contained or described in Sections 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 16, 17 and 18 shall survive the termination of this Agreement and, notwithstanding such termination, shall remain fully binding on the parties hereto.

18. ARBITRATION

Except for any claim or dispute in which equitable relief under this Agreement is sought, any disagreement, dispute or controversy concerning whether there has been Just Cause, Good Reason or breach of any of the terms of this Agreement shall be settled exclusively and finally by arbitration. The arbitration shall be administered by the American Arbitration Association in accordance with its National Rules for the Resolution of Employment Disputes then in effect (the "AAA Rules"). The arbitration shall be conducted in Los Angeles, California, or in such other city as the parties to the dispute may designate by mutual consent. The arbitral tribunal shall consist of three arbitrators (or such lesser number as may be agreed upon by the parties) selected according to the procedure set forth in the AAA Rules, with the chairman of the arbitral tribunal selected in accordance with the AAA Rules. Except as otherwise set forth in this Agreement, the fees and expenses of the arbitral tribunal in connection with such arbitration shall be borne by the parties to the dispute as shall be determined by the arbitral tribunal.

[SIGNATURES CONTAINED ON THE NEXT PAGE]

IN WITNESS WHEREOF, the parties have executed the Agreement as of the Effective Date.

Signed and acknowledged in the presence of:

UNIVERSAL ELECTRONICS INC.

Corporate Secretary

By: _____
Paul D. Arling, Chief Executive Officer

ROBERT P. LILLENES

Signature

UNIVERSAL ELECTRONICS INC.
CODE OF CONDUCT

LETTER FROM PAUL D. ARLING
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

To our employees:

The success of Universal Electronics is built on our reputation for integrity and excellence, not just of our products, but also on the way in which we conduct ourselves. We share and uphold a common set of ethical values and objectives, the core of which is our commitment to doing the "right thing," even though it may not be popular.

The business environment has never been more challenging or complex, particularly for a company like ours which does business all around the world. Now more than ever, each of us needs to understand our individual responsibility for complying with legal requirements and upholding the highest ethical standards. To help guide us in this endeavor, the Board of Directors has adopted a Code of Conduct with which we must all comply - me, you, and every one of our directors, officers and employees around the world.

The Code provides each of us with a basic guide to certain precepts and practices that are critical to our ability to be a productive company, operating within the law's requirements and with respect for one another. It does not, however, cover all the situations in which our principles may be called into question. But if we always put integrity and truthfulness first, we will come through with flying colors.

Please read the Code carefully. Compliance with its provisions is critical to our success.

Sincerely,

Paul D. Arling
Chairman and Chief Executive Officer

UNIVERSAL ELECTRONICS INC.
CODE OF CONDUCT

I. APPLICATION OF THE CODE AND THE COMPANY'S POLICIES

The Board of Directors of Universal Electronics Inc. has adopted the following Code of Conduct as part of its commitment to integrity, honesty, and compliance with law and with the highest standards of ethical conduct. This Code of Conduct sets forth certain basic rules regarding the way in which all Universal directors, officers, and employees must conduct themselves. It also provides guidance as to how to recognize certain ethical and legal issues and how to resolve them in conducting the Company's business. The Code also provides means of reporting unethical conduct that violates this Code.

Certain terms are used throughout this Code. "Universal" or the "Company" refers to Universal Electronics Inc., and all of its subsidiaries, regardless of their location around the world. "Code" refers to this Code of Conduct. "Associates" refers to all directors, officers, and employees of the Company.

All directors, officers, and employees of Universal are responsible for complying with the requirements of this Code. Only the board of directors can waive the provisions of this Code for executive officers and directors. The Chief Executive Officer can, if there are special circumstances, grant exceptions to the Code for all other Associates.

The Code cannot - and is not intended to - cover every legal and ethical issue that may arise. If you do not know what to do about a problem or are not sure how the requirements of the Code apply, you should consult your supervisor, or seek assistance from one of the persons or departments listed at the end of the Code. You should use good common sense and judgment in handling problems not specifically addressed in the Code, always resolving issues by complying with legal and ethical requirements. If there ever is a situation in which requirements of law in a particular locality conflict with this Code, you must obey the prevailing law. In such a situation, you should contact the Company's General Counsel (see contact information at the end of the Code) to determine how such a potential conflict should be resolved.

The Code does not include all of the Company's policies. We need also observe Universal's other approved policies and procedures. They are designed to foster a good working environment, to ensure production of high quality products, and to protect the Company's financial integrity. Official company policies can be found on the company's Intranet. These policies can answer many questions about appropriate procedures and practices for associates to follow in conducting business. In addition, specific work rules or policies may vary depending on the nature of your job and the country in which you work. If you are not certain about the application of these policies, you should contact your local Human Resources Department representative.

Universal may modify this Code at any time. Neither this Code nor the Company's other policies create a contract of employment with you.

II. FAIR DEALING

Universal is committed to dealing with its employees, customers, vendors, competitors and others with whom we work, with fairness, respect and integrity. Relationships forged through fairness and integrity provide keys to the company's success. No one should take unfair advantage of another through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or through any other unfair-dealing practice. Fair dealing also prohibits taking advantage of or otherwise improperly using someone else's property, including intellectual property.

Doing Business with Suppliers and Consultants

Purchasing decisions should be based on the best combination of quality, integrity, service, delivery, and price. Personal relationships should not be the basis for the purchase of goods or services.

Dealing with Customers

Associates must always be truthful and clear with customers about the terms of transactions. The Company provides certain warranties with respect to its products. These warranties are the only ones that Associates can offer to customers.

Charitable Contributions

Periodically, Associates may receive requests for corporate contributions from charities and other non-profit organizations. The Company is committed to being a good corporate citizen. All such requests should be referred to the Chief Executive Officer.

III. ACCURATE FINANCIAL INFORMATION AND DISCLOSURES

Keeping Accurate Financial Records

The Company's financial records and the financial statements that we release to the public in accordance with legal and stock market requirements must always be full, fair, accurate, timely, and understandable. Besides being required by law, Universal's credibility and reputation for honesty depend on it. The Company's ability to make accurate and timely disclosures to the public that are required by law depends on accurate and complete financial records.

Therefore, it is very important that all accounting entries, as well as all information on which those entries are based, be correct and complete. Accounting entries must be made in accordance with appropriate accounting standards, and proper records supporting accounting entries must be maintained. Any Associate who becomes aware of inaccurate or uncorrected accounting entries should report the matter in accordance with the procedures set forth at the end of this Code.

Accurate Disclosures

The Company's stock price depends on the information that the investing public has available. The law and stock market rules require full, fair, accurate, timely, and often detailed reporting of information that could influence investors and impact the Company's stock price. The Company is committed to fulfilling its responsibilities for full, fair, accurate, and timely disclosures as required by law and stock market rules. No associate may do anything that would violate these responsibilities or interfere with their proper execution. You must immediately report to your supervisor any event or development that you believe could affect the value of the Company's common stock.

COMPANY SPOKESPERSON

Only a limited number of senior officers are authorized to discuss Universal's historical or expected financial performance and other material developments. To avoid confusion to the public, any inquiries or requests from the press, media, financial community or the general public about the Company or its subsidiaries must be referred to the Company's Chief Executive Officer, Chief Financial Officer, or Chief Operating Officer.

IV. COMPLIANCE WITH LAW

Compliance and Questions About the Law

At Universal, we are committed to operating our business in compliance with the laws and government rules and regulations of the countries, states, and localities in which we operate. Compliance with law forms a basic part of the Company's integrity as a business enterprise. If you have questions about the law, including the seven areas of the law briefly highlighted in this Code, please contact the Company's General Counsel.

Insider Trading

It is illegal to trade in the Company's securities, including its common stock, on the basis of material "inside" information. "Inside" information is information about which you have knowledge, but which is not yet known to the public. Examples of inside information include, but are not limited to, financial forecasts, interim sales and earning numbers, dividend changes, possible mergers, acquisitions and joint ventures, new product innovations, major litigation developments, and significant changes in business strategy.

Information is considered material if, when disclosed to the public, it could either affect an investor's decision to buy the Company's stock or otherwise have an impact on the Company's stock price. The prohibitions on insider trading apply to all Associates, regardless of their jobs in the Company and regardless of where or how they may have obtained the inside information. Even after information has become public, you can still not trade in Company securities until it has had time to become generally known in the securities markets. Two full business days after something has become public through a press release or filing with the Securities Exchange Commission, for example, should elapse before you can trade based on that information.

Besides being illegal to trade in Company securities based on inside information, it is also

illegal to pass inside information on to others, including family and friends. The penalties for violating the insider trading laws are severe. You should be sure to read the Company's policy on insider trading. If you have any questions about whether you might violate the insider trading laws by purchasing or selling Company securities, you should consult the General Counsel.

Stock Tipping

Our commitment to integrity requires that we not disclose non-public information to anyone outside the Company. To avoid giving anyone an illegal stock trading advantage, we must each be careful when discussing the Company's business with individuals outside the Company, including family and friends.

There may also be instances when you or another Associate become aware of non-public information about another company with which Universal does business or is seeking to do business. Consistent with our commitment to integrity, you may not use non-public information as the basis to buy or sell stock or other securities of that company, nor may you pass the information to anyone else for the purpose of trading in that company's stock.

Bribes and Kickbacks

At all times we must conduct the Company's business in an honest, ethical fashion. Bribes and payoffs to government officials, suppliers, and others are strictly prohibited. Kickbacks, which are situations in which an Associate receives or gives something in return for business or for making certain business decisions, are strictly prohibited.

Political Contributions

The laws of the United States and other countries may prohibit or restrict contributions by a corporation to political parties or candidates. No Company funds or other assets may be contributed, used, or loaned, directly or indirectly, to any political party or for the campaign of any person for political office.

In addition, no Associate, regardless of his or her position in the Company, may suggest or otherwise place pressure on another Associate or member of an Associate's family to make contributions in the Associate's own name. If you have a question about the law on political contributions, contact the General Counsel.

International Business and the Foreign Corrupt Practices Act

Even though Universal is based in the United States, it is imperative that all of us comply with laws and regulations in the other countries in which the Company does business. In addition to the laws of other countries, there are special laws and regulations which apply to the import and export of products and technical data. The Company's General Counsel can provide Associates with information about the laws of other countries.

The Foreign Corrupt Practices Act prohibits Associates from offering or paying any money or other thing of value, directly or indirectly, to any foreign government official, foreign political party or its officials, or candidate for public office, for the purpose of improperly obtaining or maintaining

business or influencing governmental action favorable to the company. Prohibited payments of this nature include consulting, broker's, finder's or other fees paid to third parties where there is reason to believe that any part of such fees will be distributed to, or for the benefit of, foreign officials or political parties for those improper objectives. Examples of prohibited transactions can also include split invoicing, in an attempt to permit a customer to pay lower import duties, as well as "over invoicing" to enable a customer to take payments improperly outside of her or his country.

Antitrust Laws

The antitrust laws prohibit competitors, customers, and vendors from making agreements or having understandings that interfere with fair competition in the marketplace or that could result in price fixing. Associates may not conduct any business that violates the antitrust laws of the U.S., any state, any foreign country, or any other international body.

The antitrust laws can be very complicated, but these are some examples of conduct that would violate the law:

- Agreements among competitors to set prices, terms or conditions of sale, production, distribution, territories, or customers.
- Control of the resale pricing of any of the Company's products.
- Providing competitors with any competitive information, such as details of prices, terms or conditions of sale that could be viewed as anticompetitive.

Dealing with Government Agencies

Associates must follow all regulatory requirements that relate to the development, manufacture, or distribution of the Company's products and the provision of the Company's services. It is in all of our best interests to maintain honest and direct relationships when dealing with government agencies.

Periodically, government inspectors may request information during inspections of facilities. To determine whether requests are appropriate, always contact the General Counsel if there is an information request from a government agency. You should always cooperate with and be courteous to government inspectors and provide them with the information they request during an inspection that they are entitled to under applicable law.

V. CONFLICTS OF INTEREST

The success of our Company, the value we produce for shareholders and our jobs depend on putting the Company's interests first when we do business. A conflict of interest arises when an individual's private interests, including personal benefits that accrue because of an Associate's position with the Company, interfere with the Company's interests as a whole. Conflicts can also arise when a member of an Associate's family receives personal or business benefits as a result of the

Associate's position at the Company.

Each of us must avoid conflicts, as well as the appearance of conflicts. There is not necessarily a specific rule that deals with each situation. Associates must exercise common sense and judgment to avoid conflicts. Judgment also involves asking your supervisor or the Company's General Counsel how to handle a situation if you think you might have a conflict of interest. Dealing with conflicts involves disclosing them and then receiving guidance from your supervisor or a senior officer on how to manage such situations.

If you feel that an Associate has a conflict of interest that your supervisor has failed to address, you should report it as indicated at the end of this Code in the section entitled "Procedures for Reporting Complaints." The following are some specific examples of conflict situations that can commonly arise.

Corporate Opportunities

Any business opportunities that we see as a result of working on Universal's behalf must be used for the Company's benefit. You may not:

- take for yourself or for your personal gain opportunities that you discover or learn about through the use of corporate property or information or your position; or
- use your position in the Company or the Company's property or information for personal gain.

These prohibitions also apply to using Company opportunities, property, information, or position for the personal benefit of family members, friends, or organizations outside of the Company.

Hiring and Supervising Friends and Relatives

Our policy is to hire only the best, most qualified women and men. The Human Resources Department will assist Associates in determining qualifications for any position and in evaluating applicants for those positions. As a general matter, no relative, spouse or domestic partner, or "significant other" should be hired to work within the same departmental hierarchy in circumstances when the Associate has ultimate supervisory responsibility over the friend or relative being hired. Periodically, there may be sound business reasons for exceptions to this policy. Any exceptions must be approved by the Chief Executive Officer. Questions about possible conflicts of interest in hiring and work assignments should be directed to the Human Resources Department.

Loans to Associates

Loans by the Company to, or guarantees of obligations of, directors and executive officers and their families are prohibited. Company loans to other Associates are prohibited unless authorized by a recognized Company program.

Competing with the Company and Outside Employment

Putting the Company's interests first also means not competing with the Company in any other business activities. Outside employment can never involve working for a competitor, customer, or supplier of the Company, and it can never involve working during the regular business hours your job as an Associate requires.

Being an Officer or Director of Another Company

No officer or employee of the Company should serve as an officer or director of a business corporation not affiliated with the Company and whose stock is publicly traded except with the permission of the Chief Executive Officer.

Gifts and Entertainment

Sometimes custom in the business world involves being entertained - for example, being taken to lunch or dinner, the theater, sporting events, etc. - by people who do business or wish to do business with the Company. Similarly, there may be times when your position in the Company requires you to entertain people with whom Universal does or wants to do business. Business is often transacted in these situations, and at times Associates may be asked to represent the Company in certain situations hosted by others.

Associates should not accept gifts or non-business entertainment greater than US\$250 in value. Any gifts whose value exceeds US\$250 must in turn be given to the Company where it will be used for Company business. If non-business entertainment will exceed US\$250, the Associate should have explicit permission from his or her supervisor. Gratuities could be construed as bribes or kickbacks, and therefore Associates may never accept them.

When it is necessary to entertain others on behalf of the Company, the entertainment should be reasonable and in surroundings conducive to doing business. A substantial business discussion should take place during, before, or after the entertainment event. Before entertaining others, Associates should have clear permission from their supervisors to do so.

Any business entertainment, whether the Associate is receiving or providing the entertainment, should be in a context that would not prove embarrassing to the Company. Often, law or policy does not permit entertaining or giving gifts to government officials or employees. Associates should consult both their supervisor and the Company's General Counsel before providing such gifts or entertainment to ascertain their appropriateness and legality.

VI. PROTECTION AND USE OF COMPANY ASSETS

Company Property - In General

All Associates should protect the Company's assets and ensure their efficient use. Theft, carelessness, and waste have a direct impact on the Company's profitability and the value it produces. All Company assets should only be used for legitimate business purposes.

Company property includes both tangible and intangible property. Tangible property includes such items as computers, printers, manufacturing equipment, office supplies, and

inventories. Intangible property refers to such things as trademarks, formulas, patents, copyrights, trademarks, secrets, and other intellectual property.

As a Company that manufactures and distributes "high tech" equipment, we often, as individuals or teams, create new ideas and intellectual property. Scientific discoveries, formulas, engineering plans, manufacturing specifications, computer codes and programs, publications, and manufacturing processes are just a few examples of property that is created through the work of our minds. Any intellectual property created as a result of work at Universal automatically becomes the Company's property.

Confidential and Proprietary Information

Certain information is confidential. Confidential information is often important to the Company's competitive advantage. It should neither be shared with anyone outside the Company nor provided to other Associates except on a "need to know" basis. The protection of the Company's confidential and proprietary information is essential to its continued success. This information is an important Company asset that requires the same protection as other Company assets. Confidential information includes, among other things, all non-public information that might be of use to competitors, or that could be harmful to the Company or its customers, if disclosed. On the rare occasion that it is necessary to provide confidential information for business purposes to persons outside the Company, it must be done only after consultation with the General Counsel and after a confidentiality agreement, provided by the General Counsel, is signed.

Confidentiality also requires that you not discuss confidential information about customers with other customers or with other Associates who have no need to know this information. You should treat all computer data as confidential, and you should protect computer data from use by any unauthorized person.

Computers, Electronic Mail, and the Internet

The Company's computers, electronic mail, and internet connections are provided for the purpose of doing company business. However, Associates may occasionally use these tools for personal reasons as long as this use does not negatively affect their job performance and as long as they are not accessing inappropriate or offensive material.

All materials, including personal correspondence and electronic messages, on the Company's computers or voicemail constitute property of the Company. Therefore, they can be accessed and inspected by Company representatives when deemed appropriate by the Company. Associates should understand that they have no legitimate expectation of privacy when using the Company's email system, computers, or voicemails and other information systems.

VII. EMPLOYMENT AND WORKPLACE PRACTICES

Equal Employment Opportunity

The Company is committed to equal employment opportunities at all of its facilities worldwide, without regard to a person's race, age, color, religion, sex, ancestry, national origin, veteran status, marital status, citizenship status, individual disability, sexual orientation, or other protected group status.

Harassment

Universal will not tolerate any kind of harassment or other inappropriate behavior on the part of Associates or those with whom we deal, regardless of whether the behavior is verbal or physical, flagrant or subtle. Harassment involves unwelcome verbal or physical conduct which has the effect of unreasonably interfering with an Associate's job performance or which creates an intimidating, hostile or offensive environment. This type of conduct is prohibited regardless of whether it occurs on or off company premises or whether it occurs in person or through the mail, e-mail, voicemail, or internet.

Any Associate who believes he or she has been subjected to, or has observed, harassment should promptly report it to his or her supervisor or to the Human Resources Department.

Safety in the Workplace

Universal emphasizes the importance of the health and safety of its Associates. Associates must follow all applicable occupational safety and health laws. In addition, every Associate should remain aware of safety risks in the workplace and should make efforts to reduce those risks when they might pose a threat to the Associate's or someone else's health or safety. Associates are not required to perform work that they reasonably feel will endanger their health or safety. Associates should consult the General Counsel or the Human Resource Department for additional advice about specific situations.

Alcohol and Drugs

Use of alcohol or certain drugs can impair productivity and pose a safety threat. Drugs, other than those prescribed by a physician, should not be used during working hours. Possessing, consuming, or being under the influence of alcohol on Company premises or on Company business is prohibited except when Company policy otherwise deems such possession or consumption appropriate and reasonable. For example, it may be appropriate to consume alcohol when entertaining customers or when there is a Company party. Alcohol and drugs, whether or not prescribed by a physician, should never be used if there could be a threat to safety, if they could impair an Associate's judgment, or if using them could result in a violation of the law. Illegal drugs may never be used.

Privacy

To protect its interests the Company may require investigations in which its representatives may examine facilities, offices, computer files, electronic mail records, and other Company property. The Company reserves the right to make such investigations, even if searches of facilities, offices, and information stored on Company computers is involved. Records and files stored on Company computers are considered the property of Universal and therefore are not considered to be private

matters.

Personal information about Associates will only be disclosed within the Company to persons or departments that require such information for business purposes. The Company will not disclose personal information about Associates to anyone outside the Company unless required to do so by law or at the request of the Associate.

Environmental Safety

The Company is committed to operating practices that are consistent with governmental requirements regarding the environment. Associates must comply with all applicable environmental laws and with all permits and approvals granted the Company by environmental regulatory authorities. Associates are encouraged to exercise good judgment with regard to the environmental impacts resulting from use of Company facilities, manufacturing processes, and waste disposal.

VIII. ACCOUNTABILITY FOR ADHERENCE TO THE STANDARDS OF CONDUCT

If, after investigation, the Company determines that an Associate has breached the provisions of this Code, the Associate will be subject to disciplinary procedures which may include termination of his or her employment.

IX. PROMPT REPORTING OF COMPLAINTS AND PROBLEMS

Ethical conduct is every Associate's business. Breaches of ethical conduct harm Universal and its working environment, and thus they harm all of us. You should report promptly any breaches or suspected breaches of this Code so that they can be investigated.

PROCEDURES FOR REPORTING COMPLAINTS

Any person may in good faith submit complaint, report, or concern regarding accounting or auditing matters relating to the Company or to any other violations of the Company's policies without fear of dismissal or retaliation of any kind. The Company is committed to achieving compliance with all provisions of the Code, including compliance with applicable securities laws and regulations, accounting standards, accounting controls and audit practices.

In order to facilitate reporting, the Company's Board of Directors has established the following procedures for any person to submit a good faith complaint, report or concern regarding violations or suspected violations of the Company's Code of Conduct, including any violation or suspected violation of accounting or auditing matters relating to the Company without fear of dismissal or retaliation of any kind.

Receipt of Calls

Any person who knows of or who suspects violations of the Company's Code of Conduct, including any violation or suspected violation of accounting or auditing matters relating to the

Company, may report such concerns on a confidential or anonymous basis to the Audit Committee of the Company by calling the independent, toll-free Ethics Line established by the Company for that purpose. More detailed procedures for reporting violations and the telephone number of the toll-free Ethics Line are posted on the Company's website, www.uei.com.

Direct Correspondence with Non-Management Directors

The Ethics Line also may be used to raise on a direct and confidential basis concerns about the Company to the non-management directors of the Company.

Matters Covered by the Complaint Procedures

The Complaint Procedures relate to reports of violations or suspected violations of:

- The Company's Code of Conduct (including violations of laws, rules, regulations and NASDAQ listing standards);
- The Company's Corporate Governance Guidelines; and
- Any other policy or procedure established by the Company.

Treatment of Complaints and Reports

The Company has retained a third party provider to accept, verify and log all calls received on the Ethics Line. Upon receipt of a call, the third party provider will notify the Company's internal audit department, which will log the call and advise the Audit Committee of the call. The head of the internal audit department will then determine whether the call pertains to accounting or auditing matters or is a concern addressed to the non-management directors of the Company. Calls relating to accounting or auditing matters will be reviewed under Audit Committee direction and oversight by the internal audit department or such other persons as the Audit Committee determines to be appropriate. Calls relating to all other matters will be reviewed under Audit Committee direction and oversight by the Company's legal department or human resources department, as appropriate. If a call is intended for the non-management directors of the Company, the Audit Committee will inform the remaining non-management directors of the call and make the recording of the call available to them. Confidentiality with respect to all complaints, reports and concerns will be maintained by the third party provider, the Company, the Audit Committee and the non-management directors of the Company to the fullest extent possible, consistent with the need to conduct an adequate review.

All complaints will be investigated, and prompt appropriate corrective action, including, when warranted, disciplinary action, will be taken.

The Company guarantees that no Associate who in good faith makes a complaint or reports a violation or suspected violation of the Code of Conduct pursuant to these procedures will be penalized in any manner for providing such information.

UNIVERSAL ELECTRONICS INC.
LIST OF SUBSIDIARIES OF THE REGISTRANT

Universal Electronics B.V. (organized under the laws of the Netherlands)

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

Ultra Control Consumer Electronics GmbH (organized under the laws of Germany)

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

One For All Iberia S.L. (organized under the laws of Spain)

One For All Argentina S.R.L. (organized under the laws of Argentina)

One For All France S.A.S. (organized under the laws of France)

Universal Electronics GP, LLC (incorporated in the state of Delaware)

Universal Electronics LP, LLC (incorporated in the state of Delaware)

UEIC, LP (incorporated in the state of Delaware)

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 33-66426, 333-09021, 333-23985, 333-91101, 333-95715, 333-47378, and 333-103038) of Universal Electronics Inc. of our report dated March 9, 2004 relating to the consolidated financial statements and consolidated financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Orange County, California
March 9, 2004

Rule 13a-14(a) Certifications

I, Paul D. Arling, certify that:

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

Date: March 12, 2004

/s/ Paul D. Arling

 Paul D. Arling
 Chief Executive Officer

Rule 13a-14(a) Certifications

I, Bernard J. Pitz, certify that:

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

Date: March 12, 2004

/s/ Bernard J. Pitz

Bernard J. Pitz
Chief Financial Officer

SECTION 1350 CERTIFICATIONS

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

- (1) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul D. Arling

Paul D. Arling
Chief Executive Officer
March 12, 2004

SECTION 1350 CERTIFICATIONS

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

- (1) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 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/ Bernard J. Pitz

Bernard J. Pitz
Chief Financial Officer
March 12, 2004