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

FORM 10-K

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

(Mark One)

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

For the fiscal year ended December 31, 2006

OR

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

For the transition period from __________ to __________

Commission File Number: 0-21044

UNIVERSAL ELECTRONICS INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**33-0204817** (I.R.S. Employer Identification No.)
6101 Gateway Drive **Cypress, California** (Address of Principal Executive Offices)	**90630** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, par value $.01 per share
(Title of Class)
Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).
Large Accelerated Filer o Accelerated Filer ☑ Non-Accelerated Filer o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2006, the last business day of the registrant's most recently completed second fiscal quarter was $242,638,317, based upon the closing sale price as reported on the NASDAQ Global Select Market for that date.

As of March 13, 2007, 14,276,909 shares of Common Stock, par value $.01 per share, of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's notice of annual meeting of shareowners and proxy statement to be filed pursuant to Regulation 14A within 120 days after registrant's fiscal year end of December 31, 2006 are incorporated by reference into Part III of this Form 10-K. The Proxy Statement will be filed with the Securities and Exchange Commission no later than April 30, 2007.

Except as otherwise stated, the information contained in this Form 10-K is as of December 31, 2006.

Exhibit Index appears on page 79. This document contains 81 pages.

UNIVERSAL ELECTRONICS INC.
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2006

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Forward-Looking Statements

This Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7, contains statements that may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, our results may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including but not limited to any projections of revenue, margins, expenses, tax provisions, earnings, cash flows, benefit obligations, share repurchases or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning expected development or relating to products or services; any statements regarding future economic conditions or performance; any statements regarding pending claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties and assumptions include macroeconomic and geopolitical trends and events; the execution and performance of contracts by customers, suppliers and partners; the challenge of managing asset levels, including inventory; the difficulty of aligning expense levels with revenue changes; the outcome of pending legislation and accounting pronouncements; and other risks that are described herein, including but not limited to the items discussed in “Risk Factors” in Item 1A of this report, and that are otherwise described from time to time in our Securities and Exchange Commission reports filed after the date of filing this report. We assume no obligation and do not intend to update these forward-looking statements.

PART I

ITEM 1. BUSINESS

Business of Universal Electronics Inc.

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

As a result of the integration, the performance-based payment expiring and our chief operating decision maker (“CODM”) no longer reviewing SimpleDevices’ financial statements on a stand alone basis, commencing in the third quarter of 2006, we merged SimpleDevices into our Core Business segment resulting in us operating in a single industry segment. Since acquiring SimpleDevices in October 2004, we have integrated, and in certain respects improved upon, SimpleDevices’ technologies with and into our own technology, resulting in the creation of new wireless control devices that will allow for media control. Moreover, through this integration of technologies, we have improved and expanded our relationships with our customers and with SimpleDevices’ customers, resulting in more cross-selling of products and technology. In addition, we have integrated their sales, engineering and administrative functions into our own, resulting in both operational efficiencies and cost savings.

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

Core Business Segment

Overview

Our business is comprised of one reportable segment, Core Business. We have developed a broad line of easy-to-use, pre-programmed universal wireless control products and audio-video accessories that are marketed to enhance home entertainment systems. Additionally, we develop software and firmware solutions that can enable devices such as TVs, set-top boxes, stereos, automotive audio systems, cell phones and other consumer electronic products to wirelessly connect and interact with home networks and interactive services to deliver digital entertainment and information.

Principal Markets

Our primary markets include retail, private label, OEMs, custom installers, automobile, cellular phone, subscription broadcasting, cable and satellite service providers and companies in the computing industry. We believe that our universal remote control database is capable of controlling 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 home entertainment devices and home automation control modules worldwide.

We provide subscription broadcasters, namely cable operators and satellite service providers, both domestically and internationally, with our wireless control devices and integrated circuits, on which our software is embedded, to support the demand associated with the deployment of digital set-top boxes that contain the latest technology and features. We also sell our universal wireless control devices and integrated circuits, on which our software is embedded, to OEMs that manufacture cable converters and satellite receivers for resale with their products.

We continue to pursue further penetration of the more traditional consumer electronics/OEM markets. Customers in these markets generally package our wireless control devices for resale with their audio and video home entertainment products. We also sell customized chips, which include our 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, multimedia and interactive internet applications, and the number of OEMs.

We also continue to place significant emphasis on expanding our sales and marketing efforts to subscription broadcasters and OEMs in Asia, Latin America and Europe. We will continue to add new sales people to support anticipated sales growth in these markets over the next few years. In addition, we continue to improve on our development processes to increase cost savings and to provide more timely delivery of our products to our customers.

In the international retail markets, our *One For All*® brand name products accounted for 20.4%, 25.4%, and 32.1% of our sales for the years ended December 31, 2006, 2005, and 2004, respectively. Throughout 2006, we continued our retail sales and marketing efforts in Europe, Australia, New Zealand, South Africa, the Middle East, Mexico and selected countries in Asia and Latin America. Financial information relating to our international operations for the years ended December 31, 2006, 2005 and 2004 is included in “ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-Notes to Consolidated Financial Statements-Note 19”.

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

Beginning in 1986 and continuing today, we have compiled an extensive library that covers nearly 302,000 individual device functions and over 3,100 individual consumer electronic equipment brand names. Our library is regularly updated with new infrared (“IR”) codes used in newly introduced audio and video devices. All such IR codes are captured from the original manufacturer’s remote control devices or written specifications to ensure the accuracy and integrity of the database.

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

With today's rapidly changing technology, upgradeability ensures on-going compatibility with current and future devices. We have developed a patented technology that provides the capability to easily upgrade the memory of our wireless control devices by adding IR codes from our library that were not originally included. These upgrade features, at no additional cost to the consumer, provide customers with the ability to upgrade our wireless devices remotely using a personal computer or telephone, and directly at the factory or service locations. These upgrade options utilize one-way or two-way communication to upgrade the wireless devices' codes or data depending on the requirements.

Each of our wireless control devices is designed to simplify the use of audio, video and other devices. To appeal to the mass market, the number of buttons is minimized to include only the most popular functions. Our remotes are also designed for ease of set-up. For most of our products, the consumer simply inputs a four-digit code for each video or audio device to be controlled. Another patented ease of use feature we offer in several of our products is our user programmable macro key. This feature allows the user to program a sequence of commands onto a single key, to be played back each time that key is subsequently pressed.

During 2006, we continued our product innovation by launching several new designs for our Kameleon® line based on our technology platform developed in 2002. Kameleon®, a display technology, provides ease of use by illuminating only the keys needed to control each entertainment device. We also expanded our line of audio and video accessories including digital antennas, signal boosters, television brackets, and audio and video cleaning products. In October 2006, we began shipping a custom remote designed for a subscription customer, utilizing the Z-Wave® wireless protocol, a wireless radio frequency (RF) based communications technology designed for residential control. SimpleCenter 4.1 was launched in 2006. SimpleCenter Software Application provides a PC application for the management, control, and distribution of digital media – music, pictures, and movies. This includes a media manager plus a unified platform for connecting and synchronizing media to both home and mobile devices.

Wireless networking is one of today's fastest growing trends. Combining our connectivity software and patent portfolio with Universal Plug-n-Play ("UPnP") standards and the 802.11 wireless networking protocols, we developed our NevoSL® product line. NevoSL®, which began shipping during the second quarter of 2005, is a stand alone universal wireless controller that uses Wi-Fi to control the play back or viewing of MP3s, photos, and videos stored on a PC, through a media player attached to a home entertainment center. By utilizing the touch screen user interface, customers can select play lists, slide shows, or videos to be played via the media player from anywhere within the networks range. In addition, NevoSL® utilizes infrared technology to control virtually all infrared controlled consumer electronic devices, and can also be utilized to control wireless household appliances. NevoSL® supports the attainment of our strategic goal to build our presence as a wireless control technology leader, enabling consumers to wirelessly connect, control, and interact within the ever-increasingly complex home. In 2006, we launched NevoStudio 2.0, a software application as an update to our software suite for NevoSL®.

Methods of Distribution and Customers

Over the past 19 years, we have developed a broad portfolio of patented technologies and the industry's leading database of home connectivity software. We include our technology in a broad family of products including universal standard and touch screen remote controls, antennas and various audio/video accessories, as well as custom and customizable microcontrollers. To a lesser extent, we also license our technology to certain customers, including leading Fortune 500 companies.

In addition, we sell our services and license our software to OEMs operating in the consumer electronics, automobile, cellular phone, and subscription broadcasting industries for use in their products. These services are performed in San Mateo, California. Licenses are delivered upon the transfer of a product master or on a per unit basis when the software is loaded onto the OEM's device.

In the United States, we sell our products to cable operators, satellite service providers, private label customers, consumer electronics accessory manufacturers and companies in the computing industry for resale under their respective brand names. In addition, we sell our wireless control products, and to a lesser extent, license our proprietary technologies to OEMs for use in their products. We also license our *One For All*® brand name to a third party, who in turn, sells the products directly to certain domestic retailers.

Outside the United States, we sell our wireless control devices and certain accessories under the *One For All*® and certain other brand names under private labels to retailers, and to other customers, through our international subsidiaries. Third party distributors are utilized in countries where we do not have subsidiaries. We also sell our products and/or license our proprietary technology to OEMs, cable operators and satellite service providers internationally.

We have nine 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, One For All France S.A.S., established in France, Universal Electronics Italia S.R.L., established in Italy, and UE Singapore Pte. Ltd., established in Singapore. UE Singapore Pte. Ltd. was established in February 2007.

For the years ended December 31, 2006, 2005 and 2004, our sales to Comcast Communications, Inc., represented 12.0%, 12.2% and 11.0% of our net sales, respectively. No other single customer accounted for 10% or more of our net sales in 2006, 2005 or 2004. However, DirecTV and its subcontractors collectively accounted for 17.7%, 16.6% and 10.4% of our net sales for the years ended December 31, 2006, 2005 and 2004, respectively.

We provide domestic and international consumer support to our various universal remote control marketers, including manufacturers, cable and satellite providers, retail distributors, and audio and video original equipment manufacturers through our automated "InterVoice" system. Live agent help is also available through certain programs. In 2006, we introduced a free web-based support resource, urcsupport.com, designed specifically for cable subscribers. This solution offers interactive online demos and tutorials to help users easily setup their remote and commands, and as a result reduces call volume at customer support centers. Additionally, ActiveSupport®, a call center, provides customer interaction management services from service and support to retention. Pre-repair calls, post-install surveys, and inbound calls to customers provide greater bottom-line efficiencies. We continue to review our programs to determine their value in enhancing and improving the sales of our products. As a result of this continued review, some or all of these programs may be modified or discontinued in the future and new programs may be added.

Raw Materials and Dependence on Suppliers

We utilize third-party manufacturers and suppliers primarily in Asia to produce our wireless control products. In 2006, Computime, C.G. Development, Freescale and Jetta collectively provided 60.9% of our total inventory purchases. In 2005, Computime provided 33.9% of our total inventory purchases. In 2004, Computime and Samsung collectively provided 38.7% of our total inventory purchases.

As in the past, we continue to evaluate alternative and additional third-party manufacturers and sources of supply. During 2006, we continued to diversify our suppliers and maintain duplicate tooling for certain of our products. This has allowed us to stabilize our source for products and negotiate more favorable terms with our suppliers. In addition, where we can, we use standard parts and components, which are available from multiple sources. To continue to reduce our dependence on suppliers, we continue to seek additional sources of integrated circuit chips to help reduce the potential for manufacturing and shipping delays. In addition, we have included flash microcontroller technology in some of our products. Flash microcontrollers can have shorter lead times than standard microcontrollers and may be reprogrammed if necessary, thus potentially reducing excess or obsolete inventory exposure.

Patents, Trademarks and Copyrights

We own a number of United States and foreign patents related to our products and technology, and have filed domestic and foreign applications for other patents that are pending. We had a total of 173 issued and pending patents at the end of 2006, an increase from 156 at the end of 2005. Our patents have remaining lives ranging from approximately one to eighteen years. We have also obtained copyright registration and claim copyright protection for certain of our proprietary software and libraries of IR codes. Additionally, the names of most of our products are registered or are being registered as trademarks in the United States Patent and Trademark Office and in most of the other countries in which such products are sold. These registrations are valid for 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 our operations. While we follow the practice of obtaining patent, copyright and trademark registrations on new developments whenever advisable, in certain cases, we have elected common law trade secret protection in lieu of obtaining such other protection.

Seasonality

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. This pattern is expected to continue and the impact will fluctuate as the sales mix varies between the consumer and business categories.

See “ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA—Notes to the Consolidated Financial Statements—Note 23” for further details regarding our quarterly results.

Competition

Our principal competitors in the international retail and private label markets for our wireless controls include Philips, Thomson, and Sony as well as various manufacturers of wireless controls in Asia. Our primary competitors in the OEM market are the original equipment manufacturers themselves and wireless control manufacturers in Asia. NevoSL® product, which was released in the second quarter of 2005, competes in the custom electronics installation market against AMX, RTI, Universal Remote Control, Philips, Logitec, and many others. We compete in our markets on the basis of product quality, product features, price, intellectual property, and customer and consumer support. We believe that we will need to continue to introduce new and innovative products and to remain competitive and to recruit and retain competent personnel to successfully accomplish our future objectives. Certain of our competitors have significantly larger financial, technical, marketing and manufacturing resources than we do, and there can be no assurance that we will remain competitive in the future.

Engineering, Research and Development

During 2006, our engineering efforts focused on modifying existing products and technologies to improve features, to lower costs, and to develop measures to protect our proprietary technology and general know-how. In addition, we continue to regularly update our library of IR codes to include IR codes for new features and devices introduced worldwide. We also continue to explore ways to improve our software to pre-program more codes into our memory chips and to simplify the upgrading of our wireless control products.

Also during 2006, our product development efforts continued to focus on new and innovative wireless control and interface solutions resulting in the launch of new retail stock keeping units (“SKUs”) based on the Kameleon® interface technology. We also broadened our 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. We created the Nevo® product offerings to simplify and manage the end user's experience interacting with devices in the home — devices that may be used for a decade or more, including traditional IR based devices, and the more complex TCP/IP consumer electronic devices utilizing both open and proprietary protocols. During 2006 we also focused on developing and marketing additional products that are based on the Zigbee, Z-Wave® and other radio frequency technology.

We also developed technologies aimed at unifying traditional technologies that are encountered within a home, and emerging technologies. This allows consumers to deploy our 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.

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

Our expenditures on engineering, research and development were:

(in millions):	2006	2005	2004
Research and Development	$ 7.4	$ 6.6	$ 5.9
Engineering (1)	4.6	5.1	3.3
Total Engineering, Research and Development	$ 12.0	$ 11.7	$ 9.2

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

Environmental Matters

Many of our products are subject to various federal, state, local and international laws governing chemical substances in products, including laws regulating the manufacture and distribution of chemical substances and laws restricting the presence of certain substances in electronics products. We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, third-party damage or personal injury claims, if we were to violate or become liable under environmental laws or if our products become non-compliant with environmental laws. We also face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the materials composition of our products, including the restrictions on lead, cadmium and certain other substances that will apply to specified electronics products put on the market in the European Union as of July 1, 2006 (Restriction of Hazardous Substances Directive) and the restrictions to be imposed by similar legislation in China, the labeling provisions of which went into effect March 1, 2007.

We also could face significant costs and liabilities in connection with product take-back legislation. The European Union (the "EU") has enacted the Waste Electrical and Electronic Equipment Directive, which makes producers of electrical goods, including computers and printers, financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. The deadline for the individual member states of the EU to enact the directive in their respective countries was August 13, 2004 (such legislation, together with the directive, the "WEEE Legislation"), although extensions were granted in some countries. Producers participating in the market became financially responsible for implementing their responsibilities under the WEEE Legislation beginning in August 2005. Requirements for implementation in certain EU member states have been delayed into 2007. Similar legislation has been or may be enacted in other jurisdictions, including in the United States, Canada, Mexico, China, and Japan.

We continue to work closely with our contract manufacturing base to move these manufacturers toward becoming Sony Green Partners and we already work with several certified Green Partners. Our goal is to provide a choice of three options to our customers: Sony Green compliant, Restriction of Hazardous Substances Directive compliant, and Non-Green. All Green production processes will be segregated physically from standard production processes to eliminate the possibility of contamination.

We believe that we have materially complied with all currently existing international and domestic federal, state and local statutes and regulations regarding environmental standards and occupational safety and health matters to which we are subject. During the years ended December 31, 2006, 2005 and 2004, 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.

Employees

At December 31, 2006, we employed 392 employees, of whom 116 work in engineering and research and development, 67 in sales and marketing, 98 in consumer service and support, 39 in operations and warehousing and 72 are executive and administrative staff. None of our employees are subject to a collective bargaining agreement or represented by a union. We consider our employee relations to be good.

International Operations

Financial information relating to our international operations for the years ended December 31, 2006, 2005 and 2004 is included in “ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-Notes to Consolidated Financial Statements-Note 19”.

Available Information

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

ITEM 1A. RISK FACTORS

Forward Looking Statements

We caution that the following important factors, among others (including but not limited to factors discussed below in “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 us or the economy; the economic environment's effect on us or our customers; the growth of, acceptance of and the demand for our products and technologies in various markets and geographical regions, including cable, satellite, consumer electronics, retail, digital media/technology, CEDIA, interactive TV, automotive, and cellular industries not materializing or growing as we believed; our inability to add profitable complementary products which are accepted by the marketplace; our inability to continue to maintain our operating costs at acceptable levels through our cost containment efforts; our inability to realize tax benefits from various tax projects initiated from time to time; our inability to maintain the strength of our balance sheet; our inability to continue selling our products or licensing our technologies at higher or profitable margins; our inability to obtain orders or maintain our order volume with new and existing customers; the possible dilutive effect our stock 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 circuits, used principally in our wireless control products, from two main sources, Freescale and Samsung.

During 2006, four sources, Computime, C.G. Development, Freescale and Jetta, each provided over ten percent (10%) of our total inventory purchases. Purchases from these suppliers collectively amounted to $82.6 million, or 60.9%, of total inventory purchases during 2006. Purchases with the same suppliers collectively amounted to $57.3 million and $41.6 million, representing 54.8% and 45.9%, of total inventory purchases in 2005 and 2004, respectively. In 2004, we had an additional supplier who provided over 10% of our inventory purchases. This supplier provided $9.5 million or 10.5% of our total inventory purchases in 2004.

We have identified alternative sources of supply for these integrated circuits, components, and finished goods; however, there can be no assurance that we will be able to continue to obtain these inventory purchases on a timely basis. We generally maintain inventories of our integrated 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 Asia manufacture a majority of our products. Our arrangements with our foreign manufacturers are subject to the risks of doing business abroad, such as tariffs, environmental and trade restrictions, intellectual property protection and enforcement, export license requirements, work stoppages, political and social instability, economic and labor conditions, foreign currency exchange rate fluctuations, and other factors, which could have a material adverse effect on our business, results of operations and cash flows. We believe that the loss of any one or more of our manufacturers would not have a long-term material adverse effect on our business, results of operations and cash flows, because numerous other manufacturers are available to fulfill our requirements; however, the loss of any of our major manufacturers could adversely affect our business until alternative manufacturing arrangements are secured.

Potential Fluctuations in Quarterly Results

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. Factors such as quarterly variations in financial results could have a material adverse affect on the volatility and market price of our common stock.

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

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

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

Dependence on Consumer Preference

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

Demand for Consumer Service and Support

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

In addition, Our Kameleon® and Nevo® line of products have more features and are more complex than our older products and therefore require more end-user technical support. For our Nevo® product line, we currently rely on the distributor or dealers to provide the initial level of technical support to the end-users. We provide the second level of technical support for bug fixes and other issues at no additional charge. Therefore, as the mix of our products includes Nevo® and other more complex product lines, support costs could increase, which would have an adverse effect on our financial condition and results of operations.

Dependence Upon Timely Product Introduction

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

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

Dependence on Major Customers

The economic strength and weakness of our worldwide customers affect our performance. We sell our wireless control products, audio/video accessory 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, Asia, South Africa, Australia, and Argentina currently representing our principal foreign markets.

In each of the years ended December 31, 2006, 2005 and 2004, we had sales to one customer, Comcast, that amounted to more than 10% of our net sales for the year. In addition, in each of these years, we had sales to DirecTV and its sub-contractors, that when combined, exceeded 10% of our net sales. The loss of either of these customers or of any other key customer, either in the United States or abroad or our inability to maintain order volume with these customers, may have an adverse effect on our financial condition, results of operations and cash flows.

Internal Investments

We employ a small number of personnel to develop and market additional products that are part of the Nevo® platform as well as products that are based on the Zigbee, Z-Wave® and other radio frequency technology. Even after these hires, we continue to use outside resources to assist us in the development of these products. While we believe that such outside services should continue to be available to us, if they cease to be available, the development of these products could be substantially delayed.

Competition

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

Patents, Trademarks, and Copyrights

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

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

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

Potential for Litigation

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

Risks of Conducting Business Internationally

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

- 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 Euro and British Pound, which contribute to variations in sales of products and services in impacted jurisdictions and also affect our reported results expressed in U.S. dollars;
- currency fluctuations affecting costs, particularly the Euro, British Pound and the Chinese Yuan, which contribute to variances in costs in impacted jurisdictions and also affect our reported results expressed in U.S. dollars;
- longer accounts receivable cycles and financial instability among customers;
- trade regulations and procedures and actions affecting production, pricing and marketing of products;
- local labor conditions, customs, and regulations;
- changes in the regulatory or legal environment;
- differing technology standards or customer requirements;
- import, export or other business licensing requirements or requirements related to making foreign direct investments, which 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.

Effectiveness of Our Internal Controls Over Financial Reporting

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include in our Annual Report on Form 10-K our assessment of the effectiveness of our internal controls over financial reporting. Furthermore, our independent registered public accounting firm is required to audit our assessment of the effectiveness of our internal controls over financial reporting and separately report on whether it believes we maintain, in all material respects, effective internal controls over financial reporting. Although we believe that we currently have adequate internal controls procedures in place, we cannot be certain that future material changes to our internal controls over financial reporting will be effective. If we cannot adequately maintain the effectiveness of our internal controls over financial reporting, we might be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission. Any such action could adversely affect our financial results and the market price of our common stock.

Changes in Accounting Rules

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles. These principles are subject to interpretation by various governing bodies, including the FASB and the SEC, who create and interpret appropriate accounting standards. A change from current accounting standards could have a significant adverse effect on our results of operations.

Unanticipated Changes in Tax Provisions or Income Tax Liabilities

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

General Economic Conditions

General economic conditions, both domestic and international, 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, subscription broadcasting, and/or OEM channels could result in lower demand for our products, resulting in lower sales, earnings and cash flows.

Environmental Matters

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

Leased Property

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

Technology Changes in Wireless Control

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

Failure to Recruit, Hire, and Retain Key Personnel

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

Credit Facility

We amended our Credit Facility in August 2006 by extending our credit facility for an additional three years. Presently, we have no borrowings under this facility; however, we cannot make any assurances that we will not need to borrow amounts under this facility or that this facility will continue to be extended and thus available to us if we need to borrow. If this or any other credit facility is not available to us at a time when we need to borrow, we would have to use our cash reserves which could have a material adverse effect on our earnings, cash flow and financial position.

Change in Competition and Pricing

We rely on third-party manufacturers to build our universal wireless control products, based on our extensive IR code library and patented technology. Price is always an issue in winning and retaining business. If customers become increasingly price sensitive, new competition could arise from manufacturers who decide to go into direct competition with us or from current competitors who perform their own manufacturing. If such a trend develops, we could experience downward pressure on our pricing or lose sales, which could have a material adverse effect on our financial condition and results of operations.

Transportation Costs; Impact of Oil Prices

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

In addition, we have an exposure to oil prices in two forms. The first is in the prices of the oil-based materials that we use in our products, which are primarily the plastics and other components that we include in our finished products. The second is in the cost of delivery and freight, which would be passed on by the carriers that we use in the form of higher rates. We record freight-in as a cost of sales, and freight-out in operating expenses. Rising oil prices may have an adverse effect on cost of sales and operating expenses.

Proprietary Technologies

We produce highly complex products that incorporate leading-edge technology, including hardware, firmware, and software. Firmware and software may contain bugs that can unexpectedly interfere with operations. There can be no assurance that our testing programs will detect all defects in individual products or defects that could affect numerous shipments. The presence of defects may harm customer satisfaction, reduce sales opportunities, or increase returns. An inability to cure or repair a product defect could result in the failure of a product line, temporary or permanent withdrawal from a product or market, damage to our reputation, increased inventory costs, or product reengineering expenses, any of which could have a material impact on our revenues, margins and net income.

Strategic Business Transactions

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. PROPERTIES

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

Location	Purpose or Use	Square Feet	Status
Cypress, California	Corporate headquarters, warehouse, engineering, research and development	30,768	Leased, expires January 31, 2012
Twinsburg, Ohio	Consumer and customer call center	8,509	Leased, expires July 31, 2010
Enschede, Netherlands	International headquarters and call center	18,292	Leased, expires August 31, 2008
San Mateo, California	Engineering, research and development	9,000	Leased, expires July 31, 2008

In addition to the facilities listed above, we lease space in various international locations, primarily for use as sales offices. Furthermore, in order to support the growth of our company, we will be making renovations and expanding our corporate headquarters in fiscal 2007. In January 2007, we amended our existing lease for the Twinsburg, Ohio location to increase the leased area from 8,509 square feet to 21,509 square feet, with expected occupancy to occur in April 2007.

See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 13" for additional information regarding our obligations under leases.

ITEM 3. LEGAL PROCEEDINGS

In 2002, one of our subsidiaries (One For All S.A.S.) brought an action against a former distributor of the subsidiary's products seeking a recovery of accounts receivable. The distributor filed a counterclaim against our subsidiary seeking payment for amounts allegedly owed for administrative and other services rendered by the distributor for our subsidiary. In January 2005, the parties agreed to include in that action all claims between the distributor and two of our other subsidiaries, Universal Electronics BV ("UEBV") and One For All Iberia SL; as a result, the single action covers all claims and counterclaims between the various parties. The parties further agreed that, before any judgment is paid, all disputes between the various parties would be concluded. These additional claims involve nonpayment for products and damages resulting from the alleged wrongful termination of agency agreements. On March 15, 2005, the court in one of the litigation matters brought by the distributor against one of our subsidiaries, rendered judgment against the subsidiary and awarded damages and costs to the distributor in the amount of approximately $102,000. The amount of this judgment was charged to operations during the second quarter of 2005 and has been paid. With respect to the remaining matters before the court, the parties met with the court appointed expert in December 2006 and at that time, the expert again asked the court for an extension to finalize and file his pre-trial report with the court and the court granted this request. We now expect the expert to finalize and file his pre-trial report with the court during the quarter ending March 31, 2007, at which time we will respond.

On June 20, 2006, we filed suit against Remote Technologies, Inc. ("RTI") alleging that RTI has infringed certain of our patents. On July 28, 2006, we served RTI with a complaint, and RTI answered our complaint on August 28, 2006, denying our claims of infringement. In its answer, RTI also filed a counterclaim alleging that our patents are invalid and not infringed. On September 19, 2006, we answered RTI's counterclaim by denying its allegations and reasserting our original complaint. Principals of both companies have been involved in settlement discussions, and those discussions will continue. Because of the settlement discussions, we have not yet commenced significant discovery in this matter. If we are not able to settle this matter, we will vigorously pursue this matter against RTI and will defend against RTI's counterclaims.

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. We do not believe that any of the claims made against us in any of the pending matters have merit and we intend to vigorously defend ourselves against them.

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 our fiscal year through the solicitation of proxies or otherwise.

Executive Officers of the Registrant(1)

The following table sets forth certain information concerning our executive officers as of March 16, 2007:

Name	Age	Position
Paul D. Arling	44	Chairman of the Board and Chief Executive Officer
Paul J.M. Bennett	51	Executive Vice President, Managing Director, Europe
Mark S. Kopaskie	49	Executive Vice President, General Manager U.S Operations
Richard A. Firehammer, Jr.	49	Senior Vice President, General Counsel and Secretary
Bryan M. Hackworth	37	Vice President and Chief Financial Officer

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

Paul D. Arling is our Chairman and Chief Executive Officer. He joined us in May 1996 as Chief Financial Officer and was named to our Board of Directors in August 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. At the 2006 Annual Meeting of Stockholders, Mr. Arling was re-elected as Chairman of the Company to serve until the 2007 Annual Meeting of Stockholders. From 1993 through May 1996, he served in various capacities at LESCO, Inc. (a manufacturer and distributor of professional turf care products). Prior to LESCO, he worked for Imperial Wall coverings (a manufacturer and distributor of wall covering products) as Director of Planning, and The Michael Allen Company (a strategic management consulting company) where he was employed as a management consultant. He obtained a BS degree from the University of Pennsylvania and an MBA from the Wharton School of the University of Pennsylvania.

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

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

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

Bryan M. Hackworth is our Vice President and Chief Financial Officer. He was promoted from Chief Accounting Officer in August 2006. Mr. Hackworth joined us in June 2004 as Corporate Controller and subsequently assumed the role of Chief Accounting Officer in May 2006. Before joining us in 2004, he spent five years at Mars, Inc., a privately held international manufacturer and distributor of consumer products and served in several financial and strategic roles (Controller — Ice Cream Division; Strategic Planning Manager for the WHISKAS ® Brand) and various other financial management positions. Prior to joining Mars Inc., Mr. Hackworth spent six years at Deloitte & Touche LLP as an audit manager, specializing in the manufacturing and retail industries. He obtained a B.A. degree in Economics from U.C. Irvine and is a Certified Public Accountant.

PART II

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

Our common stock trades on the NASDAQ Global Select Market under the symbol UEIC. The closing price of our common stock as reported by NASDAQ on March 13, 2007 was $26.53. Our stockholders of record on March 13, 2007 numbered approximately 80. 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."

Recent Sales of Unregistered Securities

There were no unregistered sales of equity securities during 2006.

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

	2006		2005	
	High	Low	High	Low
First Quarter	$18.50	$16.80	$18.54	$16.31
Second Quarter	20.30	16.21	17.76	15.35
Third Quarter	19.73	16.45	18.58	16.11
Fourth Quarter	22.25	18.45	18.69	16.07

Purchases of Equity Securities

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

Period	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
1/1/06 - 1/31/06	—	—	—	602,981
2/1/06 - 2/28/06	—	—	—	602,981
3/1/06 - 3/31/06	—	—	—	602,981
4/1/06 - 4/30/06	—	—	—	602,981
5/1/06 - 5/31/06	—	—	—	602,981
6/1/06 - 6/30/06	13,455	$ 16.47	—	589,526
7/1/06 - 7/31/06	500	16.55	—	589,026
8/1/06 - 8/31/06	16,771	17.95	—	2,000,000
9/1/06 - 9/30/06	1,600	18.00	—	1,998,400
10/1/06 - 10/31/06	—	—	—	1,998,400
11/1/06 - 11/30/06	75,000	21.46	—	1,923,400
12/1/06 - 12/31/06	20,000	20.98	—	1,903,400
Total	127,326	$ 20.33	—	

During the year ended December 31, 2003 our Board of Directors authorized the repurchase of 1.5 million shares of outstanding common stock under an ongoing systematic program to manage the dilution created by shares issued under employee stock plans. This program authorized repurchases in the open market. The program expired on August 30, 2006; however, during 2006, we repurchased 30,726 shares under the program.

Effective August 31, 2006, we amended our original Credit Facility with Comerica, extending our line of credit through August 31, 2009. Under the amended Credit Facility, we have authority to acquire up to an additional 2.0 million shares of our common stock in the open market. During the year ended December 31, 2006, we repurchased 96,600 shares, under the new program.

Accordingly, during 2006 we repurchased a total of 127,326 shares of our common stock in the open market.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected historical consolidated financial information as of December 31, 2006 and December 31, 2005, and for each of the three years ended December 31, 2006 have been derived from and should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this report. The selected historical consolidated financial information as of December 31, 2004, December 31, 2003 and December 31, 2002 and for the two years ended December 31, 2003 have been derived from our audited financial statements, which are not included in this report.

	Year Ended December 31,				
(in thousands, except per share data)	2006	2005	2004	2003	2002
Net sales	$235,846	$181,349	$158,380	$120,468	$103,891
Operating income	$ 18,517	$ 11,677	$ 13,540	$ 8,573	$ 6,981
Net income	$ 13,520	$ 9,701	$ 9,114	$ 6,267	$ 5,939
Earnings per share:					
Basic	$ 0.98	$ 0.72	$ 0.67	$ 0.46	$ 0.43
Diluted	$ 0.94	$ 0.69	$ 0.65	$ 0.45	$ 0.42
Shares used in calculating earnings per share:					
Basic	13,818	13,462	13,567	13,703	13,790
Diluted	14,432	13,992	14,100	14,007	14,163
Cash dividend declared per common share	—	—	—	—	—
Gross margin	36.4%	37.0%	38.9%	38.4%	40.1%
Selling, general, administrative, research and development expenses as a % of net sales	28.5%	30.6%	30.3%	31.3%	33.4%
Operating margin	7.9%	6.4%	8.6%	7.1%	6.7%
Net income as a % of net sales	5.7%	5.4%	5.8%	5.2%	5.7%
Return on average assets	8.3%	6.8%	6.8%	5.5%	6.1%
Working capital	$106,179	$ 77,201	$ 75,081	$ 82,191	$ 71,457
Ratio of current assets to current liabilities	3.4	2.8	3.1	3.7	5.3
Total assets	$178,608	$146,319	$140,400	$126,167	$100,016
Cash and cash equivalents	$ 66,075	$ 43,641	$ 42,472	$ 58,481	$ 18,064
Short-term investments	—	—	—	—	$ 22,500
Long-term debt	—	—	—	—	$ 41
Stockholders' equity	$134,217	$103,292	$103,881	$ 95,171	$ 83,237
Book value per share (a)	$ 9.58	$ 7.63	$ 7.66	$ 6.89	$ 6.17
Ratio of liabilities to liabilities and stockholders' equity	24.9%	29.4%	26.0%	24.6%	16.8%

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

The comparability of information between 2005 and 2004 with prior years is affected by the acquisition of SimpleDevices Inc. in the fourth quarter of 2004.

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

We have developed a broad line of pre-programmed universal wireless control products and audio-video accessories that are marketed to enhance home entertainment systems. Our channels of distribution include international retail, U.S. retail, private label, OEMs, cable and satellite service providers, CEDIA, and companies in the computing industry. We believe that our universal remote control database contains device codes that are capable of controlling 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, we have compiled an extensive library that covers nearly 302,000 individual device functions and over 3,100 individual consumer electronic equipment brand names. Our library is regularly updated with new IR codes used in newly introduced video and audio devices. All such IR codes are captured from the original manufacturer's remote control devices or manufacturer's specifications to ensure the accuracy and integrity of the database. We have also developed patented technologies that provide the capability to easily upgrade the memory of the wireless control device by adding IR codes from the library that were not originally included. In the second quarter of 2005, we introduced a new product named "NevoSL"®. NevoSL® is a universal controller that delivers complete audio, visual and Wi-Fi digital media control for the networked home. In 2006, we continued to enhance our product lines by introducing NevoStudio 2.0, an update to our software suite for NevoSL®.

From October 1, 2004 through December 31, 2004, we acquired over 99% of the outstanding shares of SimpleDevices, Inc. ("SimpleDevices") for approximately $12.8 million in cash, including direct acquisition costs, plus a performance-based payment of our unregistered common stock to be paid in the first quarter of 2007 if certain financial objectives were achieved. The performance-based payment was not reflected as part of the purchase price as of December 31, 2006, since the performance metrics were not met.

The value we received from this acquisition relates primarily to SimpleDevices' unique capabilities, as well as its complete and in-process technology. SimpleDevices has developed connected-device technology solutions that link the home computer and the Internet to existing consumer electronic devices in the home and car. The company provides UPnP-compatible software to transform common home devices into "connected" devices — that is, devices that can find, control and share entertainment media across a home network. UPnP is an architecture for pervasive peer-to-peer network connectivity of intelligent appliances, wireless devices and PCs of all form factors. It is designed to bring standards-based connectivity to *ad hoc* or unmanaged networks, whether in the home, in a small business, in public spaces or attached to the Internet. UPnP is a distributed, open networking architecture that leverages TCP/IP and Web technologies to enable seamless proximity networking in addition to control and data transfer among networked devices in the home, office and public spaces.

Since acquiring SimpleDevices, we have integrated, and in certain respects improved upon, SimpleDevices' technologies with and into our own technology, resulting in the creation of new wireless control devices that will allow for media control. Moreover, through this integration of technologies, we have improved and expanded our relationships with our customers and with SimpleDevices' customers, resulting in more cross-selling of products and technology. In addition, we have integrated SimpleDevices' sales, engineering and administrative functions into our own, resulting in both operational efficiencies and cost savings.

Critical Accounting Policies and Estimates

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

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably likely to occur could materially impact the financial statements. Management believes the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue recognition

We recognize revenue on the sale of products when delivery has occurred, there is persuasive evidence of an arrangement, the sales price is fixed or determinable and collectibility is reasonably assured.

We record a provision for estimated sales returns 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 provision recorded for estimated sales returns and allowances is deducted from gross sales to arrive at net sales in the period the related revenue is recorded.

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

Sales allowances reduce gross accounts receivable to arrive at accounts receivable, net in the same period the related receivable is recorded. We have no obligations after delivery of our products other than the associated warranties. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make payments for products sold or services rendered. The allowance for doubtful accounts is based on a variety of factors, including historical experience, length of time receivables are past due, current economic trends and changes in customer payment behavior. Also, we record specific provisions for individual accounts when we become aware of a customer’s inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer’s operating results or financial position. If circumstances related to a customer change, our estimates of the recoverability of the receivables would be further adjusted, either upward or downward.

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

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, persuasive evidence of an arrangement exist, the sales price is fixed or determinable, and collectibility is reasonably assured.

When a sales arrangement contains multiple elements, such as software products, licenses and/or services, we allocate revenue to each element based on its relative fair value. The fair values for the multiple elements are determined based on vendor specific objective evidence (“VSOE”), or the price charged when the element is sold separately. The residual method is utilized when VSOE exists for all the undelivered elements, but not for the delivered element. This is performed by allocating revenue to the undelivered elements (that have VSOE) and the residual revenue to the delivered elements. When the fair value for an undelivered element cannot be determined, we defer revenue for the delivered elements until the undelivered elements are delivered. We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services or subject to customer-specified return or refund privileges.

We account for revenue under software licensing arrangements involving significant production, modification or customization of software in accordance with SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts.* We recognize revenue and profit as work progresses on long-term, fixed price contracts using the percentage-of-completion method. When applying the percentage-of-completion method, we rely on estimates of total expected contract revenue and labor hours which are provided by our project managers. We follow this method because reasonably dependable estimates of the revenue and labor applicable to various stages of a contract can be made. Recognized revenue and profit are subject to revisions as the contract progresses to completion. Revisions to revenue and profit estimates are charged to income in the period in which the facts that give rise to the revision become known, and losses are accrued when identified.

Warranty

We warrant our products against defects in materials and workmanship arising during normal use. We service warranty claims directly through our customer service department or contracted third-party warranty repair facilities. Our warranty period ranges up to three years. We provide for estimated product warranty expenses, which are included in cost of sales, as we sell the related products. Because warranty expense is a forecast based on the best available information, primarily historical claims experience, actual claim costs may differ from the amounts provided. If a significant product defect were to be discovered on a high volume product, our financial statements could be materially impacted. Historically, product defects have been less than 0.5% of net sales units. Each 0.1% change in the ratio of product defects to net sales units impacts the warranty reserve and cost of sales by approximately $50 thousand.

Inventories

Our inventories consist of wireless control devices, including but not limited to universal remote controls, antennas and integrated circuits and are valued at the lower of cost or market. Cost is determined using the first-in, first-out method. We carry inventory in amounts necessary to satisfy our customers’ inventory requirements on a timely basis. New product innovations and technological advances may shorten a given product’s life cycle. We continually monitor our inventory status to control inventory levels and dispose of any excess or obsolete inventories on hand. We write down our inventory for estimated obsolescence and unmarketable inventory equal to the difference between the inventory’s cost and its estimated market value based upon our best estimates about future demand and market conditions. If actual market conditions are less favorable than those projected by management, new technology is developed that renders our products obsolete or significant price decreases occur in component parts, such as integrated circuits, additional inventory write-downs may be required, which could have a material impact on our financial statements. Our total excess and obsolete inventory reserve as of December 31, 2006 and December 31, 2005 was approximately $2.2 million and $2.3 million, respectively, or 7.6% and 7.8% of total inventory. Each 1% change in the ratio of excess and obsolete inventory reserve to inventory would impact cost of sales by approximately $300 thousand.

Business Combinations

We are required to allocate the purchase price of acquired companies to the tangible and intangible assets and the liabilities assumed, as well as in-process research and development (“IPR&D”), based on their estimated fair values. In October 2004, we purchased SimpleDevices, for approximately $12.8 million, including direct acquisition costs; the purchase price has been allocated to the net assets acquired based on estimated fair values. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. The significant purchased intangible assets recorded by us include customer contracts, developed and core technology and trade names.

Critical estimates in valuing certain intangible assets include but are not limited to:

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

Our estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Valuation of long-lived assets and intangible assets

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

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

When we determine that the carrying value of a long-lived asset or an intangible asset may not be recoverable based upon the existence of one or more of the above indicators of impairment we perform an impairment review. If the carrying value of the asset is larger than the undiscounted cash flows, the asset is impaired. We measure an impairment based on the projected discounted cash flow method using a discount rate determined by our 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.

Goodwill

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

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

To evaluate whether goodwill is impaired, we compare the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. We determine the fair value of each reporting unit using the present value of expected future cash flows for that reporting unit. If the carrying amount of a reporting unit exceeds its fair value, the amount of the impairment loss must be measured.

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

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 tax liabilities when we believe such liabilities are probable under SFAS 5, *Accounting for Contingent Liabilities*. Actual results could differ from our estimates.

Stock-Based Compensation Expense

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R, using the modified-prospective transition method, and therefore we have not restated prior periods' results. Under this method, we recognize compensation expense for all share-based awards granted after January 1, 2006 or granted prior to but not yet vested as of January 1, 2006, in accordance with SFAS 123R. Under the fair value recognition provisions of SFAS 123R, we recognize such compensation expense net of estimated forfeitures, but only for those shares expected to vest on a straight-line basis over the service period of the award, which is generally the option vesting term of three to four years. In March 2005, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC's interpretation of SFAS 123R and the valuation of share-based compensation for public companies. We have applied the provisions of SAB 107 in our adoption of SFAS 123R.

Prior to January 1, 2006, we accounted for options granted under these plans using the recognition and measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, ("APB 25") and related interpretations, as permitted by SFAS 123. Under the intrinsic-value method of APB 25, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date over the amount an employee must pay to acquire the stock. We grant options with an exercise price equal to the market value of the common stock on the date of grant; therefore no compensation expense was recognized related to those options for the 2005 and 2004 fiscal years.

We issue restricted stock awards to the outside directors for services performed. Under both APB No. 25 and SFAS No. 123R, compensation expense related to restricted stock awards is based on the fair value of the shares awarded as of the grant date. Compensation expense for the restricted stock awards is recognized on a straight-line basis over the requisite service period of one year. The fair value of nonvested shares is determined based on the closing trade price of the Company's shares on the grant date.

Under the provisions of SFAS No. 123R, companies may no longer account for unrecognized compensation expense related to nonvested stock awards as deferred compensation. SFAS No. 123R requires that any existing balance of deferred compensation as of the adoption date be reclassified to additional paid-in capital. Because the Company adopted SFAS No. 123R on the modified prospective basis, results from prior periods have not been restated to conform to the current presentation. During the year ended 2006, 2005 and 2004, restricted shares totaling 19,375, 20,000 and 9,077 were issued, respectively.

Stock-based compensation expense is presented in the same income statement line as cash compensation paid to the same employees or directors. During the year ended December 31, 2006, we recorded $3.1 million in pre-tax stock-based compensation expense. Included in SG&A stock-based compensation expense is $0.3 million in pre-tax stock-based compensation expense related to restricted stock.

The stock-based compensation expense was attributable to the following:

(In thousands)	December 31, 2006
Cost of sales	$ 26
Research and development	370
Selling, general and administrative	2,721
Total stock-based compensation expense before income taxes	$ 3,117

The total amount of stock-based compensation expense related to non-vested awards not yet recognized as of December 31, 2006 was $4.0 million, which is expected to be recognized over a weighted-average life of 2.0 years. Additionally, the total amount of compensation expense related to non-vested restricted awards not yet recognized as of December 31, 2006 was $0.2 million, which is expected to be recognized over a weighted-average life of 6 months.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the utilization of highly subjective assumptions, including with respect to the expected life of the share-based payment awards and stock price volatility. Management determined that historical volatility calculated based on our actively traded common stock is a better indicator of expected volatility and future stock price trends than implied volatility. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, the amount of stock-based compensation expense could be significantly different from the amount recorded. If the forfeiture rate decreased by 1%, stock-based compensation expense would have increased by approximately $0.2 million for the year ended December 31, 2006. In 2006, we granted 46,000 stock options to employees. Due to the minimal amount of stock options granted in 2006, our stock-based compensation expense relating to these stock options will not be materially affected by changes in our assumptions.

Results of Operations

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

	Year Ended December 31,		
	2006	2005	2004
Net sales	100.0%	100.0%	100.0%
Cost of sales	63.6	63.0	61.1
Gross profit	36.4	37.0	38.9
Research and development expenses	3.1	3.6	3.7
Selling, general and administrative expenses	25.4	27.0	26.6
Operating income	7.9	6.4	8.6
Interest income	0.5	0.5	0.5
Other (expense) income, net	(0.2)	1.2	(0.4)
Income before income taxes	8.2	8.1	8.7
Provision for income taxes	2.5	2.7	2.9
Net income	5.7%	5.4%	5.8%

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Consolidated

Net sales for the year ended December 31, 2006 were $235.8 million, an increase of 30% compared to $181.3 million for the same period last year. Net income for 2006 was $13.5 million or $0.98 per share (basic) and $0.94 per share (diluted) compared to $9.7 million or $0.72 per share (basic) and $0.69 per share (diluted) for 2005.

	2006		2005	
	$ (millions)	% of total	$ (millions)	% of total
Net sales:				
Business	$ 178.8	75.8%	$ 126.2	69.6%
Consumer	57.0	24.2%	55.1	30.4%
Total net sales	$ 235.8	100.0%	$ 181.3	100.0%

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were approximately 76% of net sales for 2006 compared to approximately 70% for 2005. Net sales in our business lines for 2006 increased by 42% to $178.8 million from $126.2 million in 2005. This increase in sales resulted primarily from an increase in the volume of remote control sales, which was partially offset by lower prices. The increase in remote control sales volume was attributable to the continued deployment of advanced function set-top boxes by the service operators and market share gains with a few key subscription broadcasting customers. These advanced functions include digital video recording ("DVR"), video-on-demand ("VOD"), and high definition television ("HDTV"). We expect that the deployment of the advanced function set-top boxes by the service operators will continue into the foreseeable future as penetration for each of the functions cited continues to increase. As a result, we expect Business category revenue to range between $195 and $205 million in 2007.

Net sales in our Consumer lines (*One For All*® retail, private label, custom installers, and direct import) were approximately 24% of net sales for 2006 compared to approximately 30% for 2005. Net sales in our consumer lines for 2006 increased by 4% to $57.0 million, from $55.1 million in 2005. Retail sales outside North America and Europe increased by $1.2 million compared to 2005 due to a new distributor in Australia and strong sales in Argentina, Brazil and New Zealand. The increase in consumer lines net sales was also driven by the strengthening of both the Euro and the British Pound compared to the U.S. Dollar, which resulted in an increase in net sales of approximately $1.0 million. However, excluding the positive foreign exchange impact, the dollar amount of European Retail sales was constant, compared to the prior year. This increase in consumer lines net sales was also driven by our entry into the custom electronic design & installation association (“CEDIA”) market in the second quarter of 2005, as CEDIA sales increased by $0.8 million from 2005. Partially offsetting these increases was Private Label sales, which decreased by $0.5 million, or 12%, to $3.5 million in 2006 from $4.0 million in 2005. This was due to a decline in the volume of Kameleon sales in the United States. Additionally, United States direct import licensing and product revenues for 2006 decreased by $0.4 million or 16%, to $2.1 million in 2006 from $2.5 million in 2005, due to a decline in royalty revenue. We expect Consumer category revenue to range between $60 and $70 million in 2007.

Gross profit for 2006 was $85.9 million compared to $67.1 million for 2005. Gross profit as a percent of sales for 2006 was 36.4% compared to 37.0% for 2005. The decrease in gross profit as a percentage of net sales was primarily attributable to subscription broadcast sales, which generally have a lower gross profit rate as compared to our other sales, representing a larger percentage of our total business. The impact of this change in mix was a 3.3% reduction in the gross profit rate. Partially offsetting this decrease in the gross profit rate was a reduction of $1.4 million of freight expense recorded in 2006 as compared to 2005. In 2006, there was a decrease in the percentage of units that were shipped by air. Lower freight expense contributed to a 1.2% increase in the gross profit rate. A reduction in inventory scrap expense of $0.9 million added 0.7% to the gross profit rate. Scrap expense has declined as inventory management has improved. Royalty expense increased $41 thousand, but added 0.5% to the gross profit rate. Royalty expense is tied to Consumer sales, which have declined as a percentage of our total business. Warranty expense decreased by $0.2 million, which added 0.2% to the profit rate. Gross profit was also favorably impacted by the strengthening of both the Euro and British Pound compared to the U.S. Dollar, which resulted in an increase in gross profit of approximately $0.9 million and an increase of 0.2% in the gross profit rate.

Research and development expenses increased 13% from $6.6 million in 2005 to $7.4 million in 2006. The expensing of stock options, which was adopted on January 1, 2006 (SFAS 123R), accounted for $0.4 million of the increase. The remainder of the increase is related to development efforts with radio frequency technology using the Z-Wave platform, continued expansion of the Nevo® platform and development efforts taking place at our San Mateo location. We expect research and development expenses to remain near current levels for the full year 2007.

Selling, general and administrative expenses increased 23% from $48.9 million in 2005 to $59.9 million in 2006. Employee performance-based bonuses increased by $4.0 million, payroll and benefits increased by $3.5 million due to the growth of our company, expensing of stock options, which was adopted on January 1, 2006 (SFAS 123R), amounted to $2.4 million, travel increased $0.8 million, delivery and freight costs increased by $0.5 million due to the increase in sales volume, advertising increased by $0.5 million, $0.4 million is attributable to tradeshows and $0.4 million due to the strengthening of both the Euro and British Pound compared to the U.S. Dollar. These items were partially offset by lower bad debt expense, which decreased by $1.9 million. Fiscal 2005 bad debt expense included a $1.6 million write-down for a receivable due from a former European distributor. We expect that selling, general, and administrative expenses will range between $63.6 and $67.6 million for the full year 2007.

In 2006, we recorded $1.4 million of interest income compared to $0.8 million for 2005. This increase is due to higher money market rates and a higher average cash balance. Net interest income will range between $1.5 and $2.0 million in 2007.

In 2006, other expense, net was $0.5 million as compared to $2.2 million of other income, net for 2005. Approximately $0.5 million of other expense in 2006 resulted from foreign currency losses, and approximately $2.1 million of other income in 2005 resulted from foreign currency gains.

We recorded income tax expense of $5.9 million in 2006 compared to $5.0 million in 2005. Our effective tax rate was 30.4% in 2006 compared to 33.9% in 2005. The decrease in our effective tax rate is due primarily to the Netherlands' statutory tax rate decreasing from 31.5% in 2005 to 29.6% in 2006. We estimate that our effective tax rate will range between 30.0% and 32.0% for the full year 2007.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Consolidated

Net sales for the year ended December 31, 2005 were $181.3 million, an increase of 15% compared to $158.4 million for the same period last year. Net income for 2005 was $9.7 million or $0.72 per share (basic) and $0.69 per share (diluted) compared to $9.1 million or $0.67 per share (basic) and $0.65 per share (diluted) for 2004.

	2005		2004	
	$ (millions)	% of total	$ (millions)	% of total
Net sales:				
Business	$ 126.2	69.6%	$ 97.6	61.6%
Consumer	55.1	30.4%	60.8	38.4%
Total net sales	$ 181.3	100.0%	$ 158.4	100.0%

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were approximately 70% of net sales for 2005 compared to 62% for 2004. Net sales in our business lines for 2005 increased by 29% to $126.2 million from $97.6 million in 2004. This increase in sales resulted primarily from an increase in the volume of remote control sales, which was partially offset by lower prices. The increase in remote control sales volume was attributable to the continued deployment of advanced function set-top boxes by the service operators and market share gains with a few key subscription broadcasting customers. These advanced functions include digital video recording ("DVR"), video-on-demand ("VOD"), and high definition television ("HDTV"). Royalty revenue (revenue earned through licensing of intellectual property) recognized in 2005 attributable to agreements signed in the fourth quarter of 2004 of $1.5 million and the acquisition of SimpleDevices also contributed to the increase in net sales. The acquisition of SimpleDevices added net sales of $0.7 million and 1% to the Business category net sales growth.

Net sales in our Consumer lines (*One For All*® retail, private label, custom installers, and direct import) were approximately 30% of net sales for 2005 compared to 38% for 2004. Net sales in our consumer lines for 2005 decreased by 9% to $55.1 million, from $60.8 million in 2004. The decrease in sales resulted primarily from a decrease in European retail sales, which were down 11% to $43.0 million in 2005 from $47.6 million in 2004. This decrease was primarily attributable to lower volumes in the U.K. market and the weakening of both the Euro and the British Pound compared to the U.S. Dollar. The impact of the weakening currencies resulted in a decrease in net sales of approximately $0.6 million. Excluding the negative foreign exchange impact, European retail sales decreased $4.0 million compared to 2004. Private label sales decreased by 41% to $4.0 million in 2005 from $6.8 million in 2004. This was due to a decline in the volume of Kameleon® sales. Kameleon® sales declined during 2005 compared to 2004 as a result of fewer new product introductions. United States direct import licensing and product revenues for 2005 decreased by 21% to $2.5 million from $3.2 million in 2004 due to a decline in the volume of Kameleon® sales. Partially offsetting these decreases was our entry into the CEDIA market, in the second quarter of 2005. This added net sales of $2.5 million and 5% to the Consumer category net sales growth as compared to 2004.

Gross profit for 2005 was $67.1 million compared to $61.6 million for 2004. Gross profit as a percent of sales for 2005 was 37.0% compared to 38.9% for 2004. The decrease in gross profit as a percentage of net sales was primarily attributable to subscription broadcast sales, which generally have a lower gross profit rate as compared to our other sales, representing a larger percentage of our total business. The impact of this change in mix was a 1.8% reduction in the gross profit rate. Gross profit was also negatively impacted by an additional $1.9 million of freight expense recorded in 2005 as compared to 2004. A portion of this increase in freight relates to sales volume; however, the majority of the increase is due to a change in rate. In 2005, there was an increase in the percentage of units that were shipped by air versus ocean as well as a mix shift towards subscription broadcast sales. Freight contributed to a 0.8% reduction in the gross profit rate. Duties increased $0.6 million, as a larger percentage of units were imported. The increase in duty expense contributed to a 0.3% reduction in the gross profit rate. Gross profit was also negatively impacted by the weakening of both the Euro and British Pound compared to the U.S. Dollar, which resulted in a decrease in gross profit of approximately $0.6 million and a reduction of 0.2% in the gross profit rate. All other product costs, which include warranty expense, quality assurance expense, and component costs, increased $0.7 million and reduced the gross profit rate by 0.4%. Partially offsetting these decreases in the gross profit rate was a reduction in inventory scrap expense of $1.1 million. This reduction added 0.9% to the gross profit rate. In addition, royalty expense declined $0.7 million due to the decline in the volume of Kameleon® sales, which added 0.7% to the gross profit rate.

Research and development expenses increased 12% from $5.9 million in 2004 to $6.6 million in 2005. The increase is related to our continued expansion of the Nevo® platform and development efforts taking place at SimpleDevices. Partially offsetting these increases was a reduction in the development of audio-video accessories for sale in our retail channel.

Selling, general and administrative expenses increased 16% from $42.2 million in 2004 to $48.9 million in 2005. Approximately $2.8 million of this increase was attributable to the acquisition of SimpleDevices, $2.0 million to payroll and benefits, $1.9 million to bad debt expense, which included a $1.6 million reserve for a receivable due from a former European distributor, $1.2 million to delivery and freight costs caused by the increase in volume, $0.7 million to increased tax and audit fees, $0.6 million to sales commissions, $0.5 million to travel, $0.3 million to trade shows, $0.3 million to temporary clerical and warehouse staff, and $0.6 million to all other selling, general, and administrative costs. These items were partially offset by lower employee bonus expense, which decreased by $2.8 million, temporary professional staff, which decreased by $0.9 million, outside legal fees, which decreased by $0.4 million, and employment and recruiting costs, which decreased $0.3 million.

In 2005, we recorded $0.8 million of interest income compared to $0.7 million for 2004. This increase is due to higher money market rates.

In 2005, other income, net was $2.2 million as compared to $0.5 million of other expense, net for 2004. Approximately $2.1 million of other income in 2005 resulted from foreign currency transaction gains reflecting the strengthening of the US Dollar. The results for 2004 included foreign currency exchange losses of $0.2 million. An additional $0.4 million of other expense in 2004 was the result of our write-down of an investment in a private company.

We recorded income tax expense of $5.0 million in 2005 compared to $4.6 million in 2004. Our effective tax rate was 33.9% in 2005, and 33.6% in 2004.

Liquidity and Capital Resources

(In thousands)

	Year Ended December 31, 2006	Increase (decrease)	Year Ended December 31, 2005	Increase (decrease)	Year Ended December 31, 2004
Cash provided by operating activities	$17,212	$ 3,083	$14,129	$10,138	$ 3,991
Cash used for investing activities	(5,068)	(1,031)	(4,037)	12,521	(16,558)
Cash provided by (used for) financing activities	5,183	8,429	(3,246)	1,565	(4,811)
Effect of exchange rate changes	5,107	10,784	(5,677)	(7,046)	1,369

	December 31, 2006	Increase (decrease)	December 31, 2005
Cash and cash equivalents	$ 66,075	$22,434	$43,641
Working capital	106,179	28,978	77,201

Cash provided by operating activities

Our principal sources of funds are from operations. Cash provided by operating activities for 2006 was $17.2 million, compared to $14.1 million and $4.0 million during 2005 and 2004, respectively. The increase in cash flows from operations in 2006 compared to 2005 is primarily due to an increase in net sales, which resulted in an increase in net income of 39% from $9.7 million in 2005 to $13.5 million in 2006, as well as improvement in our days sales outstanding and overall inventory management. Our days sales outstanding improved from approximately 76 days at December 31, 2005 to approximately 67 days at December 31, 2006, due primarily to strong collections from our significant customers. In addition, despite an increase in net sales of approximately 30% from 2005 to 2006, inventory levels remained relatively constant with the prior year.

The increase in cash flow from operations in 2005 compared to 2004 was primarily due to lower income tax payments in 2005, increased cash collections resulting from higher net sales offset partially by an increase in our days sales outstanding ("DSO") and accounts payable and accrued expenses increasing by a greater amount in 2005 versus 2004.

Cash used for investing activities

Cash used for investing activities during 2006 was $5.1 million as compared to $4.0 million and $16.6 million during 2005 and 2004, respectively. The decrease in cash used for investing activities in 2005 compared to 2004 was primarily caused by the purchase of SimpleDevices in 2004 for $12.8 million.

Capital expenditures in 2006, 2005, and 2004 were $4.1 million, $3.1 million, and $2.7 million, respectively. Capital expenditures relate primarily to acquiring product tooling each year and we anticipate this trend will continue in 2007. In order to accommodate the growth of our company, we plan to renovate and expand our corporate headquarters in early 2007. Costs of this renovation are estimated to be approximately $1.0 million and will be financed through our current operations as well as a $0.4 million tenant improvement allowance. We are currently evaluating our existing and future information system requirements, and we may make a significant investment to upgrade our systems in 2007.

Cash provided by (used for) financing activities

Cash provided by financing activities during 2006 was $5.2 million as compared to cash used for financing activities of $3.2 million and $4.8 million during 2005 and 2004, respectively. Proceeds from stock option exercises were $7.5 million during 2006, compared to proceeds of $2.9 million and $1.9 million during 2005 and 2004, respectively. We purchased 127,326 shares of our common stock at a cost of $2.6 million during 2006, compared to 356,285 and 494,998 shares at a cost of $6.1 million and $6.7 million during 2005 and 2004, respectively. We hold these shares as treasury stock, and they are available for reissue. Presently, except for using a minimal number of these treasury shares to compensate our outside board members, we have no plans to distribute these shares, although we may change these plans if necessary to fulfill our on-going business objectives.

Effective August 31, 2006, we amended our original Credit Facility with Comerica, extending our line of credit through August 31, 2009. Under the amended Credit Facility, we have authority to acquire up to an additional 2.0 million shares of our common stock in the open market. From August 31, 2006, through December 31, 2006, we purchased 96,600 shares of our common stock, leaving 1,903,400 shares available for purchase under the Credit Facility. During 2007 we may continue to purchase shares of our common stock if we believe conditions are favorable or to offset the dilutive effect of stock option exercises.

The amended Credit Facility provides a $15 million unsecured revolving credit agreement with Comerica for an additional three years, expiring on August 31, 2009. Under the Credit Facility, the interest payable is variable and is based on 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, 2006 using the LIBOR Rate option plus a fixed margin of 1.25% was 6.58%. 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 the Credit Facility, dividend payments are allowed for up to 100% of the prior fiscal year’s net income, to be paid within 90 days of this period’s year end. We are subject to certain financial covenants related to our net worth, quick ratio, and net income. Amounts available for borrowing under the Credit Facility are reduced by the outstanding balance of import letters of credit. As of December 31, 2006, we did not have any amounts outstanding under the Credit Facility or any outstanding import letters of credit. Furthermore, as of December 31, 2006, we were in compliance with all financial covenants required by the Credit Facility.

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, 2006, we had $106.2 million of working capital as compared to $77.2 at December 31, 2005. The increase in working capital during these periods is principally due to higher cash and accounts receivable balances at December 31, 2006 compared to December 31, 2005.

The following table summarizes our contractual obligations at December 31, 2006 and the effect these obligations are expected to have on our liquidity and cash flow in future periods.

(in thousands)	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 - 3 Years**	**4 - 5 years**	**After 5 years**
Operating Lease Obligations	$ 6,266	$ 1,653	$ 2,250	$ 1,681	$ 682
Purchase Obligations(1)	20,606	20,590	16	—	—
Total	$ 26,872	$ 22,243	$ 2,266	$ 1,681	$ 682

(1) Purchase obligations primarily consist of an agreement with a specific vendor to purchase approximately 80% of our integrated circuits through December 31, 2007 from this vendor.

At December 31, 2006, we did not have any bank guarantees that provide for the bank to make payment on our behalf in the event of our non-payment for transactions with suppliers in the ordinary course of business.

At December 31, 2006, we had approximately $6.1 million and $60.0 million of cash and cash equivalents in the United States and Europe, respectively. At December 31, 2005, we had approximately $1.0 million and $42.6 million of cash and cash equivalents in the United States and Europe, respectively.

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 credit facility will be sufficient to fund current business operations as well as anticipated growth at least through the end of 2007; however, there can be no assurance that such funds will be adequate for that purpose.

Off Balance Sheet Arrangements

We do not participate in any off balance sheet arrangements.

New Accounting Pronouncements

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (“SAB 108”), *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*. In SAB 108, the SEC provides guidance on considering the effects of prior year misstatements in quantifying current year misstatements for the purpose of materiality assessment. SAB 108 is effective for the first fiscal year ending after November 15, 2006. The adoption of SAB 108 had no effect on our consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements for assets and liabilities. SFAS 157 applies when other accounting pronouncements require or permit assets or liabilities to be measured at fair value. Accordingly, SFAS 157 does not require new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the effect that the adoption of SFAS 157 will have on our consolidated results of operations and financial condition.

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109*. Interpretation 48, which clarifies Statement 109, Accounting for Income Taxes, establishes the criterion that an individual tax position has to meet for some or all of the benefits of that position to be recognized in the Company’s financial statements. On initial application, Interpretation 48 will be applied to all tax positions for which the statute of limitations remains open. Only tax positions that meet the more-likely-than-not recognition threshold at the adoption date will be recognized or continue to be recognized. The cumulative effect of applying Interpretation 48 will be reported as an adjustment to retained earnings at the beginning of the period in which it is adopted.

Interpretation 48 is effective for fiscal years beginning after December 15, 2006, and will be adopted by us on January 1, 2007. We have not been able to complete our evaluation of the impact of adopting Interpretation 48 and as a result, are not able to estimate the effect the adoption will have on our financial position and results of operations, including our ability to comply with current debt covenants.

In March 2006, the Task Force of the FASB issued EITF No. 06-3, *How Taxes Collected from Customers and Remitted to the Governmental Authorities Should Be Presented in the Income Statement (That is Gross versus Net Presentation).* EITF 06-3 provides guidance on the presentation of taxes remitted to governmental authorities on the income statement. The Task Force reached the conclusion that the presentation of taxes on either a gross (included in revenue and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to APB Opinion No. 22, *Disclosures of Accounting Policies.* Any such taxes that are reported on a gross basis should be disclosed if amounts are significant. EITF 06-3 is effective for years beginning after December 15, 2006. We record revenue net of sales tax and VAT. At the time we record revenue, sales tax and VAT charged to customers are recorded as a liability in other accrued expenses. The liability is reduced when the sales tax or VAT is remitted to the local government.

Outlook

Our focus is to build technology and products that make the consumer's interaction with devices and content within the 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, HDTV and home theater solutions, to name only a few, has transformed control of the home entertainment center into a complex challenge for the consumer. The more recent introduction and projected growth of digital media technologies in the consumer's life will further increase this complexity. We have set out to create the interface for the connected home, building a bridge between the home devices of today and 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 the control of devices to the control of and access to content, such as digital media, to enrich the entertainment experience.

We will continue enhancing our leadership position in our core business by developing custom products for our subscription broadcasting, OEM, retail and computing customers, growing our capture expertise in infrared technology and radio frequency standards, adding to our portfolio of patented or patent pending technologies and developing new platform products. We are also developing new ways to enhance remote controls and other accessory products.

Throughout 2007, we are continuing development of our Nevo® technology, an embedded solution that transforms an electronic display into a sophisticated and easy-to-use wireless home control and automation device. New Nevo products will help us to increase the strength we have built in our custom installation business worldwide. We are continuing to seek ways to use our technology to make the set-up and use of control products, and the access to and control of digital entertainment within the home entertainment network, easier and more affordable. In addition, we are working on product line extensions to our One For All® branded products which include digital antennas, signal boosters, and other A/V accessories.

We are also seeking 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 strengthening existing relationships by working with customers to understand how to make the consumer 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.

We will continue developing software and firmware solutions that can enable devices such as TVs, set-top boxes, stereos, automotive audio systems and other consumer electronic products to wirelessly connect and interact with home networks and interactive services to deliver digital entertainment and information. This "smart device" category is emerging, and in the remainder of 2007 we look to continue to build relationships with our customers in this category.

Throughout 2007, we will continue to 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 these risks and the use of financial instruments to mitigate our risk exposure.

On August 31, 2006, we amended our credit facility to extend for an additional three years, expiring on August 31, 2009. The interest payable under our revolving Credit Facility with our bank is variable and based on either (i) the bank's cost of funds or (ii) the LIBOR rate plus a fixed margin of 1.25%; the rate is affected by changes in market interest rates. At December 31, 2006, we had no borrowings on our credit facility. The interest rate in effect on the credit facility as of December 31, 2006 using the LIBOR Rate option plus a fixed margin of 1.25% was 6.58%.

At December 31, 2006 we had wholly owned subsidiaries in The Netherlands, United Kingdom, Germany, France, Argentina, Spain and Italy. Sales from these operations are typically denominated in local currencies including Euros, British Pounds and Argentine Pesos, thereby creating exposure to changes in exchange rates. Changes in local currency exchange rates relative to the U.S. Dollar and, in some cases, to each other, may positively or negatively affect our sales, gross margins and net income. From time to time, we enter into foreign currency exchange agreements to manage our exposure arising from fluctuating exchange rates that affect cash flows and our reported income. Contract terms for the foreign currency exchange agreements normally last less than nine months. We do not enter into any derivative transactions for speculative purposes.

The value of our net balance sheet positions held in foreign currency can also be impacted by fluctuating exchange rates, as can the value of the income generated by our European subsidiaries. It is difficult to estimate the impact of fluctuations on reported income, as it depends on the opening and closing rates, the average net balance sheet positions held in a foreign currency and the amount of income generated in local currency. We routinely forecast what these balance sheet positions and income generated in local currency may be, and we take steps to minimize exposure as we deem appropriate.

The sensitivity of earnings and cash flows to the variability in exchange rates is assessed by applying an approximate range of potential rate fluctuations to our assets, obligations and projected results of operations denominated in foreign currency. Based on our overall foreign currency rate exposure at December 31, 2006, we believe that movements in foreign currency rates could have a material affect on our financial position. We estimate that if the exchange rates for the Euro and the British Pound relative to the U.S. Dollar fluctuate 10% from December 31, 2006, net income and cash flows in the first quarter of 2007 would fluctuate by approximately $0.1 million and $4.4 million, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Universal Electronics Inc.

We have audited the accompanying consolidated balance sheets of Universal Electronics Inc. as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Universal Electronics Inc. as of December 31, 2006 and 2005, and the consolidated results of its operations and its consolidated cash flows for each of the two years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 and Note 11 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation as a result of adopting Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, effective January 1, 2006.

Our audit was conducted for the purpose of forming an opinion of the basic financial statements taken as a whole. The Schedule II is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Universal Electronics Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control —Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 9, 2007 expressed an unqualified opinion thereon.

/s/ Grant Thornton LLP

Irvine, California
March 9, 2007

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated statements of income, stockholders' equity and cash flows for the year ended December 31, 2004, present fairly, in all material respects, the results of operations and cash flows of Universal Electronics Inc. and its subsidiaries for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule as of and for the year ended December 31, 2004 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 audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Orange County, California
March 16, 2005, except for Note 18,
as to which the date is March 9, 2007

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

	December 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 66,075	$ 43,641
Accounts receivable, net	51,867	41,861
Inventories, net	26,459	26,708
Prepaid expenses and other current assets	2,722	3,841
Income tax receivable	—	903
Deferred income taxes	3,069	2,971
Total current assets	150,192	119,925
Equipment, furniture and fixtures, net	5,899	4,352
Goodwill	10,644	10,431
Intangible assets, net	5,587	6,007
Other assets	221	403
Deferred income taxes	6,065	5,201
Total assets	$ 178,608	$ 146,319
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 20,153	$ 22,731
Accrued sales discounts/rebates	4,498	3,406
Accrued income taxes	4,483	7,551
Accrued compensation	7,430	2,766
Other accrued expenses	7,449	6,270
Total current liabilities	44,013	42,724
Long term liabilities:		
Deferred income taxes	103	74
Deferred revenue	—	229
Other long term liability	275	—
Total liabilities	44,391	43,027
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $.01 par value, 50,000,000 shares authorized; 17,543,235 and 16,963,748 shares issued at December 31, 2006 and 2005, respectively	175	169
Paid-in capital	94,733	83,220
Accumulated other comprehensive income (loss)	2,759	(5,265)
Retained earnings	68,514	54,994
Deferred stock-based compensation	—	(163)
	166,181	132,955
Less cost of common stock in treasury, 3,528,827 and 3,420,876 shares at December 31, 2006 and 2005, respectively	(31,964)	(29,663)
Total stockholders' equity	134,217	103,292
Total liabilities and stockholders' equity	$ 178,608	$ 146,319

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

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

	Year Ended December 31, 2006	2005	2004
Net sales	$235,846	$181,349	$158,380
Cost of sales	149,970	114,222	96,800
Gross profit	85,876	67,127	61,580
Research and development expenses	7,412	6,580	5,865
Selling, general and administrative expenses	59,947	48,870	42,175
Operating income	18,517	11,677	13,540
Interest income	1,401	845	723
Other (expense) income, net	(498)	2,152	(540)
Income before provision for income taxes	19,420	14,674	13,723
Provision for income taxes	5,900	4,973	4,609
Net income	$ 13,520	$ 9,701	$ 9,114
Earnings per share:			
Basic	$ 0.98	$ 0.72	$ 0.67
Diluted	$ 0.94	$ 0.69	$ 0.65
Shares used in computing earnings per share:			
Basic	13,818	13,462	13,567
Diluted	14,432	13,992	14,100

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

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

	Common Stock Issued		Common Stock in Treasury			Accumulated Other		Deferred		
	Shares	Amount	Shares	Amount	Paid-in Capital	Comprehensive Income (Loss)	Retained Earnings	Stock-Based Compensation	Totals	Comprehensive Income
Balance at December 31, 2003	16,405	$164	(2,599)	$(17,233)	$75,805	$ 298	$36,179	$ (42)	$ 95,171	
Comprehensive income:										
Net income							9,114			$ 9,114
Currency translation adjustment						3,273				3,273
Total comprehensive income										$ 12,387
Shares issued for retirement plan	29	1			430				431	
Purchase of treasury shares			(495)	(6,696)					(6,696)	
Stock options exercised	209	2			1,883				1,885	
Restricted stock grants					349			(349)	—	
Shares issued to Directors			9	76	(76)				—	
Director stock-based compensation								222	222	
Tax benefit from exercise of non - qualified stock options					481				481	
Balance at December 31, 2004	16,643	167	(3,085)	(23,853)	78,872	3,571	45,293	(169)	103,881	
Comprehensive income:										
Net income							9,701			$ 9,701
Currency translation adjustment						(8,836)				(8,836)
Total comprehensive income										$ 865
Shares issued for retirement plan	31				533				533	
Purchase of treasury shares			(356)	(6,110)					(6,110)	
Stock options exercised	290	2			2,862				2,864	
Restricted stock grants					326			(326)	—	
Shares issued to Directors			20	300	(300)				—	
Director stock-based compensation					74			332	406	
Tax benefit from exercise of non - qualified stock options					853				853	
Balance at December 31, 2005	16,964	169	(3,421)	(29,663)	83,220	(5,265)	54,994	(163)	$ 103,292	
Comprehensive income:										
Net income							13,520			$ 13,520
Currency translation adjustment						8,024				8,024
Total comprehensive income										$ 21,544
Shares issued for retirement plan	29	1			528				529	
Purchase of treasury shares			(127)	(2,589)					(2,589)	
Stock options exercised	550	5			7,492				7,497	
Shares issued to Directors			19	288	(288)				—	
Stock-based compensation expense under SFAS 123R					3,117				3,117	
Tax benefit from exercise of non - qualified stock options					827				827	
Reclassification of deferred stock-based compensation on adoption of SFAS 123(R)					(163)			163	—	
Balance at December 31, 2006	17,543	$175	(3,529)	$(31,964)	$94,733	$ 2,759	$68,514	$ —	$134,217	

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

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

	Year Ended December 31,		
	2006	2005	2004
Cash provided by operating activities:			
Net income	$ 13,520	$ 9,701	$ 9,114
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,187	3,702	3,093
Provision for doubtful accounts	210	2,121	161
Provision for inventory write-downs	1,810	2,735	3,788
Deferred income taxes	(637)	(130)	349
Tax benefit from exercise of stock options	552	853	481
Shares issued for employee benefit plan	529	533	431
Stock-based compensation	3,117	406	222
Loss on disposal of fixed assets	—	—	192
Write-off of in-process R&D	—	—	240
Write down of investment in private company	—	3	357
Changes in operating assets and liabilities (net of acquisition in 2004):			
Accounts receivable	(7,120)	(6,966)	(6,386)
Inventory	(280)	(7,128)	(7,311)
Prepaid expenses and other assets	1,459	(1,207)	(2,490)
Accounts payable and accrued expenses	2,546	5,416	2,329
Accrued income and other taxes	(2,681)	4,090	(579)
Net cash provided by operating activities	17,212	14,129	3,991
Cash used for investing activities:			
Acquisition of equipment, furniture and fixtures	(4,057)	(3,137)	(2,657)
Acquisition of intangible assets	(1,011)	(900)	(1,147)
Payments for business acquired, net of cash acquired	—	—	(12,754)
Net cash used for investing activities	(5,068)	(4,037)	(16,558)
Cash provided by (used for) financing activities:			
Proceeds from stock options exercised	7,497	2,864	1,885
Treasury stock purchased	(2,589)	(6,110)	(6,696)
Excess tax benefit from stock-based compensation	275	—	—
Net cash provided by (used for) financing activities	5,183	(3,246)	(4,811)
Effect of exchange rate changes on cash	5,107	(5,677)	1,369
Net increase (decrease) in cash and cash equivalents	22,434	1,169	(16,009)
Cash and cash equivalents at beginning of year	43,641	42,472	58,481
Cash and cash equivalents at end of year	$ 66,075	$ 43,641	$ 42,472

Supplemental Cash Flow Information — *Income taxes paid were $8.7 million, $0.3 million, and $4.5 million in 2006, 2005 and 2004, respectively.*

Supplemental schedule of non-cash investing activities:

In 2004 we purchased over 99% of the outstanding shares of SimpleDevices, Inc. for $12.8 million, net of cash acquired (See Note 22 to the consolidated financial statements). In conjunction with the acquisition, assets acquired and liabilities assumed were as follows:

Fair value of assets acquired	$ 13,613
Cash paid for capital stock, net	12,761
Liabilities assumed	$ 852

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., based in Southern California, has developed a broad line of easy-to-use, pre-programmed universal wireless control products and audio-video accessories that are marketed to enhance home entertainment systems as well as software designed to enable consumers to wirelessly connect, control and interact with an increasingly complex home environment. Our primary markets include retail, private label, original equipment manufacturers (“OEMs”), custom installers, cable and satellite service providers, and companies in the personal computing industry. Over the past 19 years, we have developed a broad portfolio of patented technologies and a database of home connectivity software that we license to our customers, including many leading Fortune 500 companies. In addition, we sell our universal wireless control products and other audio/visual accessories through our European headquarters in The Netherlands, and to distributors and retailers in Europe, Australia, New Zealand, South Africa, the Middle East, Mexico, and selected countries in Asia and Latin America under the One For All® brand name.

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

Note 2 — Summary of Significant Accounting Policies

Principles of Consolidation

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

Reclassification and Segment Realignment

In the third quarter of 2006, we integrated the SimpleDevices business segment into our Core Business segment in order to more closely align our financial reporting with our business structure. The segment integration did not impact previously reported consolidated net revenue, income from operations, net income or net earnings per share.

Certain prior year amounts have been reclassified to conform with the presentation utilized in the current year ended December 31, 2006.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and 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 may differ from these estimates and judgments. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, allowance for sales returns and doubtful accounts, warranties, inventory valuation, business combinations, purchase price allocations, review for impairment of long-lived assets, intangible assets and goodwill, contingencies, stock-based compensation expense and income taxes. These estimates may be adjusted as additional information becomes available and any adjustment could be significant.

Revenue Recognition

We recognize revenue on the sale of products when delivery has occurred, there is persuasive evidence of an arrangement, the sales price is fixed or determinable and collectibility is reasonably assured. 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. The provision recorded for estimated sales returns and allowances is deducted from gross sales to arrive at net sales in the period the related revenue is recorded. Sales allowances reduce gross accounts receivable to arrive at accounts receivable, net in the same period the related receivable is recorded. We have no obligations after the delivery of our products other than the associated warranties (See Note 21 to the consolidated financial statements). We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make payments for products sold or services rendered. The allowance for doubtful accounts is based on a variety of factors, including historical experience, length of time receivables are past due, current economic trends and changes in customer payment behavior. Also, we record specific provisions for individual accounts when we become aware of a customer's inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to a customer change, our estimates of the recoverability of the receivables would be further adjusted, either upward or downward.

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

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, persuasive evidence of an arrangement exist, the sales price is fixed or determinable, and collectibility is reasonably assured.

When a sales arrangement contains multiple elements, such as software products, licenses and/or services, we allocate revenue to each element based on its relative fair value. The fair values for the multiple elements are determined based on vendor specific objective evidence ("VSOE"), or the price charged when the element is sold separately. The residual method is utilized when VSOE exists for all the undelivered elements, but not for the delivered element. This is performed by allocating revenue to the undelivered elements (that have VSOE) and the residual revenue to the delivered elements. When the fair value for an undelivered element cannot be determined, we defer revenue for the delivered elements until the undelivered elements are delivered. We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services or subject to customer-specified return or refund privileges. In certain arrangements, we may provide for services that are insignificant and would not affect revenue recognition.

We account for revenue under software licensing arrangements involving significant production, modification or customization of software in accordance with SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts.* We recognize revenue and profit as work progresses on long-term, fixed price contracts using the percentage-of-completion method. When applying the percentage-of-completion method, we rely on estimates of total expected contract revenue and labor hours. We follow this method because reasonably dependable estimates of the revenue and labor applicable to various stages of a contract can be made. Recognized revenue and profit are subject to revisions as the contract progresses to completion. Revisions to revenue and profit estimates are charged to income in the period in which the facts that give rise to the revision become known and losses are accrued when identified.

Foreign Currency Translation and Foreign Currency Transactions

The functional currency for our foreign operations is their local currency. The translation of foreign currencies into U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet dates and for revenue and expense accounts using the average exchange rate during the period. The gains and losses resulting from the translation are included in the foreign currency translation adjustment account, a component of accumulated other comprehensive income (loss) in stockholders' equity, and are excluded from net income. The portions of inter-company accounts receivable and accounts payable that are not intended for settlement are translated at exchange rates in effect at the balance sheet date.

We recorded a foreign currency translation gain of $8.0 million for the twelve months ended December 31, 2006 and a foreign currency translation loss of $8.8 million and a foreign currency translation gain of $3.3 million for the years ended December 31, 2005 and 2004, respectively. The foreign currency translation gain of $8.0 million for the year ended December 31, 2006 is due to the weakening of the U.S. dollar versus the Euro. The U.S. dollar/Euro spot rate was 1.32 and 1.18 at December 31, 2006 and December 31, 2005, respectively. The foreign currency translation loss of $8.8 million for the year ended December 31, 2005 is due to the strengthening of the U.S. dollar versus the Euro. The U.S. dollar/Euro spot rate was 1.18 and 1.35 at December 31, 2005 and December 31, 2004, respectively. The foreign currency translation gain of $3.3 million for the year ended December 31, 2004 is due to the weakening of the U.S. dollar versus the Euro. The U.S. dollar/Euro spot rate was 1.35 and 1.26 at December 31, 2004 and December 31, 2003, respectively.

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 entity are recorded in other (expense) income, net (See Note 15 to the consolidated financial statements).

Cash and Cash Equivalents

Cash and cash equivalents include cash accounts and all investments purchased with initial maturities of three months or less. We maintain cash and cash equivalents with various financial institutions. These financial institutions are located in many different geographic regions. We mitigate our exposure to credit risk by placing our cash and cash equivalents with high quality financial institutions.

At December 31, 2006, we had approximately $6.1 million and $60.0 million of cash and cash equivalents in the United States and Europe, respectively. At December 31, 2005, we had approximately $1.0 million and $42.6 million of cash and cash equivalents in the United States and Europe, respectively.

Inventories

Inventories consisting of wireless control devices, including universal remote controls, antennas, and related component parts, are valued at the lower of cost or market. Cost is determined using the first-in, first-out method and includes integrated circuits, sub-contractor costs, and freight-in. We carry inventory in amounts necessary to satisfy our customers' inventory requirements on a timely basis.

New product innovations and technological advances may shorten a given product's life cycle. We continually monitor the inventory status to control inventory levels and dispose of any excess or obsolete inventories on hand. We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of the inventory and its estimated fair value based upon our best estimates 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. Inventory write-downs totaled approximately $1.8 million, $2.7 million and $3.8 million in 2006, 2005, and 2004, respectively. The decline in inventory write-downs is due to overall improvement in inventory management.

Equipment, Furniture and Fixtures

Equipment, furniture and fixtures are recorded at cost. For financial reporting purposes, depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the appropriate accounts and any gain or loss is included in operating income. We utilize a threshold of

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$1,000 for capitalizing individual assets and $5,000 for capitalizing bulk assets. Additionally, these assets must have a useful life greater than one year.

Estimated useful lives consist of the following:

Tooling and Equipment	2-7 Years
Computer Equipment	3-5 Years
Software	3-5 Years
Furniture and Fixtures	5-7 Years
Leasehold Improvements	Lesser of lease term or useful life (approximately 2 to 6 years)

Long-Lived Assets and Intangible Assets

Intangible assets consist principally of distribution rights, patents, trademarks, trade names, and developed and core 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 two to ten years.

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

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, we conduct an impairment review. The asset is impaired if its carrying value exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. In assessing recoverability, we must make assumptions regarding estimated future cash flows and other factors.

The impairment loss is the amount by which the carrying value of the asset exceeds its fair value. We calculate fair value by taking the sum of the discounted projected cash flows over the assets remaining useful life, using a discount rate commensurate with the risks inherent in our current business model. When calculating fair value, we must make assumptions regarding estimated future cash flows, discount rates and other factors. At December 31, 2006, it was determined there was no impairment of long-lived assets or intangible assets.

Goodwill

We record the excess purchase price of net tangible and intangible assets acquired over their estimated fair value as goodwill. We have adopted the provisions of SFAS 142, *Goodwill and Intangible Assets*. Under SFAS 142, we are required to test goodwill for impairment at least annually. We evaluate the carrying value of goodwill as of December 31 of each year and between annual evaluations if events occur or circumstances change that may reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. In performing the impairment review, we determine the carrying amount of each reporting unit by assigning assets and liabilities, including the existing goodwill, to those reporting units (See Note 3 to the consolidated financial statements). A reporting unit is defined as an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is deemed a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. Our domestic and international components are “reporting units” within the operating segment “Core Business”.

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To evaluate whether goodwill is impaired, we compare the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. We determine the fair value of each reporting unit using the present value of their expected future cash flows. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of reporting unit goodwill to its carrying amount. In calculating the implied fair value of the reporting unit's goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. An impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value.

We conducted annual impairment reviews as of December 31, 2006, 2005, and 2004. Based on the analysis performed we determined that the fair value exceeded its carrying amount, and therefore concluded that there was no indication of an impairment loss.

During the fourth quarter of 2004 we purchased SimpleDevices for approximately $12.8 million in cash, including direct acquisition costs, and a potential performance-based payment of our unregistered common stock, if certain future financial objectives were achieved.

As a result of the performance-based incentive and other factors, our chief operating decision maker ("CODM") reviewed SimpleDevices' discrete operating results through the second quarter of 2006, and SimpleDevices was defined as an "operating segment" and a "reporting unit" as well.

Effective at the end of second quarter 2006, we completed our integration of SimpleDevices' technologies with our existing technologies, merged SimpleDevices' sales, engineering and administrative functions into our "domestic" reporting unit, and the performance-based payment related to the acquisition expired. Commencing in the third quarter of 2006, our CODM no longer reviews SimpleDevices' financial statements on a stand alone basis. As a result of these activities, SimpleDevices became part of the "domestic" reporting unit within our single operating segment.

Income Taxes

Income tax expense includes U.S. and international income taxes. We account for income taxes using the liability method. We record deferred tax assets and deferred tax liabilities on our balance sheet for expected future tax consequences of events that have been recognized in different periods for financial statement purposes versus tax return purposes using enacted tax rates that will be in effect when these differences reverse. We record a valuation allowance to reduce net deferred tax assets if we determine that it is more likely than not that the deferred tax assets will not be realized. A current tax asset or liability is recognized for the estimated taxes refundable or payable for the current year. We also make estimates for uncertain tax provisions and record reserves, if necessary, under SFAS 5, *Accounting for Contingencies.*

Capitalized Software Costs

We account for software development costs in accordance with SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed*. Costs incurred internally while creating a computer software product are expensed when incurred as research and development until technological feasibility has been established. The Company has determined that technological feasibility for its products is established when a working model is complete. Once technological feasibility is established, software costs are capitalized until the product is available for general release to customers and is then amortized using the greater of (i) the ratio that current gross revenues for a product bear to the total current and anticipated future gross revenues or (ii) the straight-line method over the remaining estimated economic life of the product. Software development costs consist primarily of salaries, employee benefits, supplies and materials. The straight-line amortization periods for capitalized software costs range from 2 to 5 years.

Capitalized software costs are stated at cost net of accumulated amortization. Unamortized capitalized software costs were $0.1 million and $0.3 million at December 31, 2006 and 2005, respectively. We capitalized $0, $0, and $0.3 million for the years ended December 31, 2006, 2005, and 2004, respectively. Amortization expense related to capitalized software costs was $0.3 million, $0.3 million, and $0.2 million for the years ended December 31, 2006, 2005, and 2004, respectively (See Note 3 to the consolidated financial statements).

Research and Development

We account for research and development costs in accordance with SFAS No. 2, *Accounting for Research and Development Costs*. As such, research and development costs are expensed as incurred and consist primarily of salaries, employee benefits, supplies and materials.

Advertising

Advertising costs are expensed as incurred. Advertising expense was $2.2 million, $1.5 million and $1.2 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Shipping and Handling Fees and Costs

In September 2000, the Emerging Issues Task Force issued EITF 00-10, *Accounting for Shipping and Handling Fees and Costs*. EITF 00-10 requires shipping and handling fees billed to customers to be classified as revenue and shipping and handling costs to be either classified as cost of sales or disclosed in the notes to the financial statements if classified elsewhere in the income statement. We include shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with in-bound freight are recorded in cost of goods sold. Other shipping and handling costs are included in selling, general and administrative expenses and totaled $7.0 million, $6.3 million and $5.0 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Derivatives

Our foreign currency exposures are primarily concentrated in the Euro and British Pound. Depending on the predictability of future receivables, payables and cash flows in each operating currency, we periodically enter into foreign currency exchange contracts with terms normally lasting less than nine months to protect against the adverse effects that exchange-rate fluctuations may have on our foreign currency-denominated receivables, payables and cash flows. We do not enter into financial instruments for speculation or trading purposes. These derivatives have not qualified for hedge accounting. The gains and losses on both the derivatives and the foreign currency-denominated balances are recorded as foreign exchange transaction gains or losses and are classified in other (expense) income, net. Derivatives are recorded on the balance sheet at fair value. The estimated fair value of derivative financial instruments represents the amount required to enter into similar offsetting contracts with similar remaining maturities based on quoted market prices.

We held foreign currency exchange contracts which resulted in a net pre-tax loss of approximately $97 thousand for the year ended December 31, 2006, a net pre-tax loss of approximately $409 thousand for the year ended December 31, 2005 and a gain of approximately $5 thousand for the year ended December 31, 2004. We had two foreign currency exchange contracts outstanding at December 31, 2006, known as participating forwards, both with a notional value of $6.25 million each. We had two foreign currency exchange contracts outstanding at December 31, 2005, a forward contract with a notional value of $11.0 million that settled on January 20, 2006, and a participating forward with a notional value of $25.0 million that settled on January 3, 2006.

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In April 2006, we entered into a USD/Euro and a USD/GBP participating forward with 50% participation rates and notional values of $6.25 million each. The strike prices of the participating forwards are $1.1865 (USD/Euro) and $1.6900 (USD/GBP). Both contracts settled on January 3, 2007. The loss on the participating forward contracts was approximately ($0.6) million at December 31, 2006, which is included in other accrued expenses. At December 31, 2005, we had a participating forward contract with a notional value of $25 million. We recognized a gain of $1.1 million on the aforementioned contract, which was recorded in prepaids and other current assets as of December 31, 2005. Additionally, at December 31, 2005, we held a USD/Euro forward contract with a notional value of $11.0 million. We recognized a gain of $93 thousand on the aforementioned contract, which was included in prepaid expenses and other current assets as of December 31, 2005.

Stock-Based Compensation

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123(R), *Share-Based Payment* (“SFAS 123R”) using the modified-prospective transition method. Under this transition method, compensation expense recognized for the year ended December 31, 2006 includes: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of January 1, 2006 based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 and (b) compensation expense for all share-based awards granted subsequent to December 31, 2005 based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods have not been restated. We recognize such compensation expense, net of estimated forfeitures, on a straight-line basis over the service period of the award, which is generally the option vesting term of three to four years. Prior to January 1, 2006, we accounted for options granted under our plans using the intrinsic value method under Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, (“APB 25”) and related interpretations, as permitted by SFAS No. 123, *Accounting for Stock Based Compensation* (“SFAS 123”). In March 2005, the Securities and Exchange Commission (the “SEC”) issued Staff Accounting Bulletin No. 107 (“SAB 107”) regarding the SEC’s interpretation of SFAS 123R and the valuation of share-based compensation for public companies. We have applied the provisions of SAB 107 to our adoption of SFAS 123R.

We use the Black Scholes option pricing model to measure the stock-based compensation expense. The assumptions used in the Black Scholes model includes the following: weighted average fair value of grant, risk-free interest rate, expected volatility and expected life in years.

New Accounting Pronouncements

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (“SAB 108”), *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*. In SAB 108, the SEC provides guidance on considering the effects of prior year misstatements in quantifying current year misstatements for the purpose of materiality assessment. SAB 108 is effective for the first fiscal year ending after November 15, 2006. The adoption of SAB 108 had no effect on our consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements for assets and liabilities. SFAS 157 applies when other accounting pronouncements require or permit assets or liabilities to be measured at fair value. Accordingly, SFAS 157 does not require new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the effect that the adoption of SFAS 157 will have on our consolidated results of operations and financial condition.

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109*. Interpretation 48, which clarifies Statement 109, Accounting for Income Taxes, establishes the criterion that an individual tax position has to meet for some or all of the benefits of that position to be recognized in the Company’s financial statements. On initial application, Interpretation 48 will be applied to all tax positions for which the statute of limitations remains open. Only tax positions that meet the more-likely-than-not recognition threshold at the adoption date will be recognized or continue to be recognized. The cumulative effect of applying Interpretation 48 will be reported as an adjustment to retained earnings at the beginning of the period in which it is adopted.

Interpretation 48 is effective for fiscal years beginning after December 15, 2006, and will be adopted by us on January 1, 2007. We have not been able to complete our evaluation of the impact of adopting Interpretation 48 and as a result, are not able to estimate the effect the adoption will have on our financial position and results of operations, including our ability to comply with current debt covenants.

In March 2006, the Emerging Issues Task Force of the FASB issued EITF No. 06-3, *How Taxes Collected from Customers and Remitted to the Governmental Authorities Should Be Presented in the Income Statement (That is Gross versus Net Presentation).* EITF 06-3 provides guidance on the presentation of taxes remitted to governmental authorities on the income statement. The Task Force reached the conclusion that the presentation of taxes on either a gross (included in revenue and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to APB Opinion No. 22, *Disclosures of Accounting Policies.* Any such taxes that are reported on a gross basis should be disclosed if amounts are significant. EITF 06-3 is effective for years beginning after December 15, 2006. We record revenue net of sales tax and VAT. At the time we record revenue, sales tax and VAT charged to customers are recorded as a liability in other accrued expenses. The liability is reduced when the sales tax or VAT is remitted to the local government.

Note 3 — Goodwill and Intangible Assets

Under the requirements of SFAS 142, *Goodwill and Intangible Assets*, the unit of accounting for goodwill is at a level of reporting referred to as a “reporting unit.” SFAS 142 defines a reporting unit as either (1) an operating segment — as defined in SFAS 131, *Disclosures about Segments of an Enterprise and Related Information* or (2) one level below an operating segment — referred to as a component. Our domestic and international components are “reporting units” within our one operating segment “Core Business.” Goodwill is reviewed for impairment during the fourth quarter of each year. Goodwill of a reporting unit is tested for impairment between annual tests, if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

During the fourth quarter of 2004 we purchased SimpleDevices for approximately $12.8 million in cash, including direct acquisition costs, and a potential performance-based payment of our unregistered common stock, if certain future financial objectives were achieved.

As a result of the performance-based incentive and other factors, our chief operating decision maker (“CODM”) reviewed SimpleDevices’ discrete operating results through the second quarter of 2006, and SimpleDevices was defined as an “operating segment” and a “reporting unit” as well.

Effective at the end of second quarter 2006, we completed our integration of SimpleDevices’ technologies with our existing technologies, merged SimpleDevices’ sales, engineering and administrative functions into our “domestic” reporting unit, and the performance-based payment related to the acquisition expired. In addition our CODM no longer reviews SimpleDevices’ financial statements on a stand alone basis, commencing in the third quarter of 2006. As a result of these activities, SimpleDevices became part of the “domestic” reporting unit within our single operating segment.

Goodwill for the domestic operations was generated from the acquisition of a remote control company in 1998 and the acquisition of a software and firmware solutions company, SimpleDevices, in 2004. Goodwill for international operations resulted from the acquisition of remote control distributors in the UK in 1998, Spain in 1999 and France in 2000.

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Goodwill information for domestic and international components is as follows:

(in thousands)	December 31, 2006	December 31, 2005
Goodwill		
Domestic	$ 8,314	$ 8,314
International(1)	2,330	2,117
Total Goodwill	$ 10,644	$ 10,431

(1) The difference in international goodwill reported at December 31, 2006, as compared to the goodwill reported at December 31, 2005, was the result of fluctuations in the foreign currency exchange rates used to translate the balance into U.S. dollars.

Besides goodwill, our intangible assets consist principally of distribution rights, patents, trademarks, purchased technologies and capitalized software costs. 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 two to ten years.

Information regarding our intangible assets at December 31, 2006 and 2005 are listed below:

(in thousands)	December 31, 2006	December 31, 2005
Carrying amount:		
Distribution rights (10 years)	$ 379	$ 340
Patents (10 years)	5,605	4,726
Trademark and trade names (10 years)	840	885
Developed and core technology (5 years)	2,410	2,410
Capitalized software (2 years)	898	898
Other (5-7 years)	370	372
Total carrying amount	$ 10,502	$ 9,631
Accumulated amortization:		
Distribution rights	$ 50	$ 45
Patents	2,221	1,816
Trademark and trade names	189	118
Developed and core technology	1,475	993
Capitalized software	813	559
Other	167	93
Total accumulated amortization	$ 4,915	$ 3,624
Net carrying amount:		
Distribution rights	$ 329	$ 295
Patents	3,384	2,910
Trademark and trade names	651	767
Developed and core technology	935	1,417
Capitalized software	85	339
Other	203	279
Total net carrying amount	$ 5,587	$ 6,007

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Amortization expense, including the amortization of capitalized software, which is recorded to cost of sales, for 2006, 2005, and 2004 was approximately $1.5 million, $1.4 million, and $0.9 million, respectively. Estimated amortization expense for existing intangible assets and capitalized software for each of the five succeeding years ending December 31 and thereafter are as follows:

2007	$ 1,253
2008	1,129
2009	1,029
2010	729
2011	647
Thereafter	800
	$ 5,587

The weighted average amortization period of intangible assets is 8.5 years.

Note 4 — Accounts Receivable

Accounts receivable consisted of the following at December 31, 2006 and 2005:

	December 31,	
(in thousands)	2006	2005
Trade receivable, gross	$ 55,726	$ 45,732
Note receivable(1)	200	—
Other (2)	437	—
Allowance for doubtful accounts	(2,602)	(2,296)
Allowance for sales returns	(1,894)	(1,575)
Accounts receivable, net	$ 51,867	$ 41,861

(1) In April 1999, we provided a non-recourse interest bearing secured loan to our chief executive officer. The note is due by December 15, 2007 and has been classified as a current asset. (See Note 20 to the consolidated financial statements).

(2) Other receivable as of December 31, 2006, consisted primarily of a tenant improvement allowance provided by our landlord for the renovation and expansion of our corporate headquarters in Cypress, California. Construction will begin in 2007, and completion is expected to occur by the end of 2007. The tenant improvement allowance will be paid upon completion of construction.

Sales Returns

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. The provision recorded for estimated sales returns and allowances is deducted from gross sales to arrive at net sales in the period the related revenue is recorded. Sales allowances reduce gross accounts receivable to arrive at accounts receivable, net in the same period the related receivable is recorded. Our contractual sales return periods range up to six months. We have no other obligations after delivery of our products other than the associated warranties.

Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Our allowance for doubtful accounts is our best estimate of losses resulting from the inability of our customers to make their required payments. We maintain an allowance for doubtful accounts based on a variety of factors, including historical experience, length of time receivables are past due, current economic trends and changes in customer payment behavior. Also, we record specific provisions for individual accounts when we become aware of a customer's inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to a customer change, our estimates of the recoverability of the receivables would be further adjusted, either upward or downward.

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The following changes occurred in the allowance for doubtful accounts during the years ended December 31, 2006, 2005 and 2004:

(in thousands) Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	FX effect / (Write-offs)	Balance at End of Period
Year Ended December 31, 2006	$2,296	$ 210	$ 96	$2,602
Year Ended December 31, 2005	$1,130	$2,121	$ (955)	$2,296
Year Ended December 31, 2004	$2,565	$ 161	$(1,596)	$1,130

Note 5 — Inventories

Inventory, net consisted of the following at December 31, 2006 and 2005:

	December 31,	
(in thousands)	2006	2005
Components	$ 6,101	$ 5,508
Finished goods	22,537	23,474
Reserve for inventory obsolescence	(2,179)	(2,274)
Inventory, net	$ 26,459	$ 26,708

During 2006, we recorded a charge to reduce our finished good inventories by $0.4 million ($0.2 million after tax) for an error in our standard cost as of December 31, 2005. We believe the amounts are not material to the current or prior year.

Note 6 — Equipment, Furniture and Fixtures

Equipment, furniture and fixtures consisted of the following at December 31, 2006 and 2005:

	December 31,	
(in thousands)	2006	2005
Tooling	$ 8,538	$ 5,977
Computer equipment	3,131	2,861
Software	1,858	1,027
Furniture and fixtures	1,459	1,322
Leasehold improvements	1,212	1,104
Machinery and equipment	728	1,250
	16,926	13,541
Accumulated depreciation	(11,027)	(9,189)
Equipment, furniture and fixtures, net	$ 5,899	$ 4,352

Depreciation expense, including tooling depreciation, which is recorded in cost of goods sold, was $2.7 million, $2.3 million and $2.2 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Note 7 — Revolving Credit Line

Effective August 31, 2006, we amended our original Credit Facility with Comerica Bank (“Comerica”), extending our line of credit through August 31, 2009. The amended Credit Facility provides a $15 million unsecured revolving credit agreement with Comerica for an additional three years. Under the Credit Facility, the interest payable is variable and is based on 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, 2006 using the LIBOR Rate option plus a fixed margin of 1.25% was 6.58%. 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. At December 31, 2006, the commitment rate was 0.25%. Under the terms of the Credit Facility, dividend payments are allowed for up to 100% of the prior fiscal year's net income, to be paid within 90 days of the current period's year end. We are subject to certain financial covenants related to our net worth, quick ratio, and net income. Amounts available for borrowing under the Credit Facility are reduced by the outstanding balance of import letters of credit. As of December 31, 2006, we did not have any amounts outstanding under the Credit Facility or any outstanding import letters of credit. Furthermore, as of December 31, 2006, we were in compliance with all financial covenants required by the Credit Facility.

Under the amended Credit Facility, we have authority to acquire up to an additional 2.0 million shares of our common stock in the open market. From August 31, 2006, through December 31, 2006, we purchased 96,600 shares of our common stock, leaving 1,903,400 shares available for purchase under the Credit Facility.

Note 8 — Other Accrued Expenses

The components of other accrued expenses at December 31, 2006 and 2005 are listed below:

(in thousands)	December 31, 2006	December 31, 2005
Accrued sales and VAT taxes	1,444	1,325
Accrued freight	1,346	1,041
Deferred revenue	841	762
Accrued advertising and marketing	558	566
Accrued warranties	416	414
Other	2,844	2,162
	$ 7,449	$ 6,270

Note 9 — Financial Instruments

Our financial instruments consist primarily of investments in cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The carrying value of these instruments approximate fair value due to their short maturities.

Note 10 — Stockholders' Equity

Fair Price Provisions and Other Anti-Takeover Measures

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

Treasury Stock

During 2006, 2005 and 2004, we repurchased 127,326, 356,285 and 494,998 shares of common stock, respectively on the open market at a cost of $2.6 million, $6.1 million and $6.7 million, respectively. These shares were recorded as shares held in treasury at cost. The shares will generally be held by us for future use as management and the Board of Directors deem appropriate, including the compensation of our outside directors. During 2006, 2005 and 2004 shares totaling 19,375, 20,000 and 9,077, respectively, were issued to the outside directors.

Stock Awards to Outside Directors

On July 11, 2001, as compensation for the outside directors for the three year period commencing July 1, 2001, we granted each director shares of our common stock with a fair market value equivalent to approximately $278,833, based on the market price on the date of grant. These shares were recorded in a separate component of stockholders' equity and were amortized over their three-year vesting period. Each calendar quarter, 1/12 of the total stock award vested and the shares were distributed provided the director served the entire calendar quarter term. Amortization expense amounted to $42,012 in 2004. The stock awards to the directors were fully amortized as of June 30, 2004.

On July 1, 2004, as compensation for the outside directors for the one year period commencing July 1, 2004, we granted each director 5,000 shares of our common stock with an aggregate fair market value of approximately $348,523, based on the market price on the date of grant. On July 30, 2004, we filed an S-8 Registration Statement covering all of the shares issued under this plan. These shares were recorded in a separate component of stockholders' equity and were amortized over their 1-year vesting period. Each calendar quarter, 1/4 of the total stock award vested and the shares were distributed. Amortization expense amounted to $168,700 and $179,823 in 2005 and 2004, respectively. The stock awards to the directors were fully amortized as of June 30, 2005.

On July 1, 2005, as compensation for the outside directors for the one year period commencing July 1, 2005, we granted each director 5,000 shares of our common stock with an aggregate fair market value of approximately $325,800, based on the market price on the date of grant. These shares have been recorded in a separate component of stockholders' equity and are being amortized over their 1-year vesting period. Each calendar quarter, 1/4 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 $162,900 and $162,900 in 2006 and 2005, respectively.

On July 1, 2006, as compensation for the outside directors for the one year period commencing July 1, 2006, we granted three directors 5,000 shares of our common stock each, with an aggregate fair market value of approximately $272,100, based on the market price on the date of grant. This cost is being amortized over their 1-year vesting period. Each calendar quarter, 1/4 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 for shares granted on July 1, 2006 amounted to $136,050 in 2006. On August 14, 2006 an additional outside director joined our Board of Directors. We granted him 4,375 shares of our common stock, with a fair market value of approximately $79,406, based on the market price on the date of grant, which is being amortized ratably over 10.5 months through June 30, 2007. On October 23, 2006, an additional outside director joined our Board of Directors. We granted him 3,438 shares of our common stock, with a fair market value of approximately $72,679, based on the market price on the date of grant, which is also being amortized ratably through June 30, 2007. Amortization expense related to shares granted on August 14, 2006 and October 23, 2006, is $34,031 and $19,829, respectively. The total amortization expense related to shares granted to our Board of Directors was $352,810 for the year ended December 31, 2006.

Note 11 — Stock Options

Stock-based compensation expense

At December 31, 2006, we have the stock-based employee compensation plans described below. The total compensation expense before taxes related to these plans was $2.8 million in fiscal 2006. Prior to January 1, 2006, we accounted for options granted under our plans using the intrinsic value method under Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, ("APB 25"). Under the intrinsic-value based method of APB 25, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date over the amount an employee must pay to acquire the stock. We grant options with an exercise price equal to the market value of the common stock on the date of grant; therefore, no compensation expense was recognized related to those options for the years ended December 31, 2005 and 2004.

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment* ("SFAS 123R") using the modified-prospective transition method. Under this transition method, compensation expense recognized for the year ended December 31, 2006 includes: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of January 1, 2006 based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 and (b) compensation expense for all share-based awards granted subsequent to December 31, 2005 based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. We recognize such compensation expense net of estimated forfeitures over the service period of the award, which is generally the option vesting term of three to four years. We estimated the annual forfeiture rate for our executives and board of directors group and non-executive employees group to be 2.41% and 5.95%, respectively, as of December 31, 2006, based on historical experience.

As a result of adopting SFAS 123R, the impact to the Consolidated Financial Statements for income before income taxes and net income for the year ended December 31, 2006 was $2.8 million and $1.8 million lower, respectively, than if we had continued to account for stock-based compensation under APB 25. The impact on both basic and diluted earnings per share for the year ended December 31, 2006 was $0.13 and $0.12 per share, respectively. In addition, prior to the adoption of SFAS 123R, we presented the tax benefit of stock option exercises as *operating* cash flows. Upon the adoption of SFAS 123R, tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options are classified as *financing* cash flows. In the year ended December 31, 2006, approximately $275 thousand of tax benefits resulted from tax deductions in excess of the compensation cost recognized.

Prior to January 1, 2006, we provided *pro forma* disclosures in accordance with SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*, as if the fair value method had been adopted as defined by SFAS 123. Under SFAS 123, compensation expense is computed based on the fair value of the stock options granted and is recognized over the period during which an employee is required to provide service in exchange for the award. The fair value of the options granted was determined at the date of grant using the Black-Scholes option valuation model.

SFAS 123R requires that we continue to provide the pro forma disclosures required by SFAS 123 for all periods presented in which share-based payments to employees are accounted for under APB 25. The following table illustrates the effect on net income and net income per share as of December 31, 2005 and December 31, 2004, respectively, as if we applied the fair value recognition provisions of SFAS 123 to share-based employee compensation.

	December 31,	
(In thousands, except per share amounts)	2005	2004
Net income as reported	$ 9,701	$ 9,114
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	268	147
Less: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(2,792)	(2,374)
Pro forma net income	$ 7,177	$ 6,887
Basic earnings per share:		
As reported	$ 0.72	$ 0.67
Pro forma	$ 0.53	$ 0.51
Diluted earnings per share:		
As reported	$ 0.69	$ 0.65
Pro forma	$ 0.51	$ 0.49

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Stock-based compensation expense is presented in the same income statement line as cash compensation paid to the same employees or directors. During the year ended December 31, 2006, we recorded $3.1 million in pre-tax stock-based compensation expense. Included in SG&A stock-based compensation expense is $0.3 million in pre-tax stock-based compensation expense related to restricted stock.

The stock-based compensation expense was attributable to the following:

(In thousands)	December 31, 2006
Cost of sales	$ 26
Research and development	370
Selling, general and administrative	2,721
Total stock-based compensation expense before income taxes	$ 3,117

The total amount of compensation expense related to non-vested awards not yet recognized as of December 31, 2006 was $4.0 million, which is expected to be recognized over a weighted-average life of 2.0 years.

In light of the new accounting guidance under SFAS 123R, beginning in the first quarter of 2006, we re-evaluated the assumptions used to estimate the fair value of options granted to employees in 2006. As part of this assessment, management determined that historical volatility calculated based on our actively traded common stock is a better indicator of expected volatility and future stock price trends than implied volatility. Therefore, we continued to use historical volatility to determine expected volatility. We calculate expected volatility using historical volatility of our common stock over a period of time equal to the expected term of the stock option.

As part of SFAS 123R adoption, we examined the historical pattern of option exercises in an effort to determine if there were any discernable activity patterns based on certain employee classifications. From this analysis, we identified two employee classifications: (1) Executive and Board of Directors and (2) Non-Executives. We use the Black-Scholes option pricing model to value the options for each of the employee classifications. The table below presents the weighted average expected life in years. The expected life computation is based on historical exercise patterns and post-vesting behavior within each of the two classifications identified. The interest rate for any period within the expected contractual life of the awards is based on the prevailing U.S. Treasury note rate for the applicable expected term.

We also estimated the annual forfeiture rate for our executives & board of directors and non-executive employees to be 2.41% and 5.95% as of December 31, 2006, respectively, based on historical experience.

The fair value of share-based payment awards was estimated using the Black-Scholes option pricing model with the following assumptions and weighted average fair values:

	December 31, (1)		
	2006	2005	2004
Weighted average fair value of grants	$ 7.50	$ 9.28	$ 7.94
Risk-free interest rate	4.72%	3.73%	3.01%
Expected volatility	39.27%	58.35%	65.51%
Expected life in years	4.89	5.00	5.00

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(1) The fair value calculation was based on stock options granted during the respective period. During the year ended December 31, 2006, we granted 30,000 stock options to an executive employee and 16,000 stock options to non-executive employees.

The following is a summary of stock option activity for the year ended December 31, 2006:

	Number of Options (in 000's)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in 000's)
Outstanding at December 31, 2005	3,151	$13.70		
Granted	46	18.15		
Exercised	(550)	13.58		$ 3,036
Forfeited/cancelled/ expired	(167)	16.08		
Outstanding at December 31, 2006	2,480	$13.73	5.51	$18,096
Vested and expected to vest at December 31, 2006	2,411	$13.64	5.43	$17,783
Exercisable at December 31, 2006	1,848	$12.91	4.67	$14,994

During 2006, common stock options were modified due to an employee's death, resulting in 2,875 unvested stock options becoming fully vested. The incremental stock-based compensation expense resulting from the modification was $13,401.

Cash received from option exercises for the year ended December 31, 2006 was $7.5 million. The actual tax benefit realized from option exercises of the share-based payment awards was $0.8 million for the year ended December 31, 2006.

The following is a summary of stock option activity for the years ended December 31, 2005 and 2004:

	2005		2004	
	Shares (in 000's)	Weighted Average Exercise Price	Shares (in 000's)	Weighted Average Exercise Price
Outstanding at beginning of year	3,039	$ 12.79	2,662	$ 12.32
Granted	631	17.40	702	13.94
Exercised	(290)	9.89	(209)	9.10
Expired and/or forfeited	(229)	15.33	(116)	15.95
Outstanding at end of year	3,151	$ 13.70	3,039	$ 12.79
Options exercisable at year end	1,943	$ 12.94	1,828	$ 12.58

During 2005, common stock options were modified for two employees. One modification was part of a severance agreement and the other modification resulted from an employee's death. The total number of options modified was 20,500, 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 $73,863. As a result, $73,863 was charged to non-cash stock-based compensation.

During 2004, no common stock options were modified.

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Nonvested restricted stock awards as of December 31, 2006 and changes during 2006 were as follows:

	Shares Granted (in 000's)	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2005	10	$ 16.29
Granted	23	18.59
Vested	(20)	17.37
Forfeited	—	—
Nonvested at December 31, 2006	13	$ 18.74

The total amount of compensation expense related to non-vested restricted awards not yet recognized as of December 31, 2006 was $0.2 million, which is expected to be recognized over a weighted-average life of 6 months.

Stock Incentive Plans

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 provided for the granting of incentive and other stock options through January 18, 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 determined when each option was to expire, but no option shall be exercisable more than ten years after the date the option is granted. The 1993 Plan also provides for the award of stock appreciation rights subject to terms and conditions specified by the Compensation Committee. No stock appreciation rights have been awarded under this 1993 Plan. There are no remaining options available for grant under the 1993 Plan. There are 17,400 shares outstanding under this plan as of December 31, 2006.

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 were available for distribution to our key officers, employees and non-affiliated directors. The 1995 Plan provided for the issuance of stock options, stock appreciation rights, performance stock units, or any combination thereof through May 18, 2005, unless otherwise terminated by resolution of our Board of Directors. The option prices for the stock options were 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. There are no remaining options available for grant under the 1995 Plan. There are 72,000 shares outstanding under this plan as of December 31, 2006.

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 our 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 our 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. There are no remaining options available for grant under the 1996 Plan. There are 25,334 shares outstanding under this plan as of December 31, 2006.

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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 our 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 26, 2008, unless otherwise terminated by resolution of our 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. There are 1,500 remaining options available for grant under the 1998 Plan. There are 358,404 shares outstanding under this plan as of December 31, 2006.

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 our 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 26, 2009, unless otherwise terminated by resolution of our 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. There are 4,500 remaining options available for grant under the 1999 Plan. There are 146,444 shares outstanding under this plan as of December 31, 2006.

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 our 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 6, 2009, unless otherwise terminated by resolution of our 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. There are 45,562 remaining options available for grant under the 1999A Plan. There are 417,091 shares outstanding under this plan as of December 31, 2006.

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 our 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 4, 2012, unless otherwise terminated by resolution of our 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. There are 14,497 remaining options available for grant under the 2002 Plan. There are 716,739 shares outstanding under this plan as of December 31, 2006.

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 our 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 our 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. There are 196,938 remaining options available for grant under the 2003 Plan. There are 726,937 shares outstanding under this plan as of December 31, 2006.

2006 Stock Incentive Plan

On June 13, 2006, the 2006 Nonqualified Stock Plan ("2006 Plan") was approved. Under the 2006 Plan, 1,000,000 shares of common stock are available for distribution to our key officers and employees. The 2006 Plan provides for the issuance of stock options, stock appreciation rights, performance stock units, or any combination thereof through June 12, 2016, unless otherwise terminated by resolution of our 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 options, stock appreciation rights or performance stock units have been awarded under this 2006 Plan. There are 1,000,000 remaining options available for grant under the 2006 Plan. There are no shares outstanding under this plan as of December 31, 2006.

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

It is our policy to retain our earnings to support the growth of the Company. Additionally, we may retain earnings to repurchase shares of our common stock, when conditions are favorable.

Significant option groups outstanding at December 31, 2006 and the related weighted average exercise price and life information are listed below:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding At 12/31/06 (in 000's)	Weighted-Average Remaining Years of Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 12/31/06 (in 000's)	Weighted-Average Exercise Price
$ 3.47 to $ 4.97	162	1.72	$ 4.95	162	$ 4.95
5.81 to 7.50	127	2.01	7.25	127	7.25
8.45 to 9.83	347	5.89	8.68	346	8.67
10.92 to 13.08	573	5.38	11.94	407	11.68
14.85 to 22.06	1,271	6.29	17.67	806	17.83
$ 3.47 to $ 22.06	2,480	5.51	$ 13.73	1,848	$ 12.91

Note 12 — Significant Customers and Suppliers

Significant Customer

We had sales to one significant customer who contributed more than 10% of total net sales. Sales made to this customer were $28.3 million, $22.2 million, and $17.5 million representing 12.0%, 12.2%, and 11.0% of our total net sales for the years ended December 31, 2006, 2005 and 2004, respectively. Trade receivables with this customer amounted to $3.1 million and $2.1 million or 5.9% and 5.1% of our total accounts receivable at December 31, 2006 and 2005, respectively. In addition, we had sales to a customer and its sub-contractors that, when combined, totaled $41.6 million, $30.0 million, and $16.4 million, accounting for 17.7%, 16.6%, and 10.4% of net sales for the years ended December 31, 2006, 2005 and 2004, respectively. Trade receivables with this customer and its sub-contractors amounted to $6.2 million and $3.3 million, or 12.0% and 7.8%, of our total accounts receivable at December 31, 2006 and 2005, respectively. The future loss of these customers or any key customer, either in the United

States or abroad, due to the financial weakness or bankruptcy of any such customer or our inability to obtain orders or maintain our order volume with our major customers, may have an adverse effect on our financial condition, results of operations and cash flows.

Significant Suppliers

Most of the components used in our products are available from multiple sources. We have elected to purchase integrated circuits ("IC"), used principally in our wireless control products, from two main sources. Purchases from one supplier amounted to more than 10% of total inventory purchases. Purchases from this major supplier amounted to $14.2 million, $9.2 million and $7.8, representing 10.5%, 8.8% and 8.6%, respectively, of total inventory purchases for the years ended December 31, 2006, 2005 and 2004. Accounts payable with the aforementioned supplier amounted to $0.4 million and $1.1 million, representing 2.0% and 4.7%, respectively, of total accounts payable at December 31, 2006 and 2005. For the year ended December 2004, there was a different IC supplier who provided more than 10% of total inventory purchases. Purchases from that supplier amounted to $9.5 million or 10.5% of total inventory purchases in 2004.

In addition, during the year ended December 31, 2006, we purchased component and finished good products from three major suppliers. Purchases from these three major suppliers amounted to $40.7 million, $13.9 million and $13.8 million representing 30.0%, 10.2% and 10.2%, respectively, of total inventory purchases for the year ended December 31, 2006. During the year ended December 31, 2005 purchases from the same three suppliers amounted to $35.5 million, $8.4 million and $4.1 million representing 33.9%, 8.1% and 4.0%, respectively, of total inventory purchases. During the year ended December 31, 2004 inventory purchases from the aforementioned three suppliers amounted to $25.6 million, $8.2 million and $0 representing 28.2%, 9.1% and 0.0%, respectively.

Accounts payable with the aforementioned three suppliers of component and finished good products amounted to $8.1 million, $0.7 million and $2.0 million respectively, representing 40.9%, 3.6% and 9.8% of the total accounts payable at December 31, 2006. At December 31, 2005, accounts payable with the same suppliers amounted to $6.5 million, $1.9 million and $1.4 million, respectively, representing 28.5%, 8.3% and 6.2% of the total accounts payable. There was no other component and finished goods supplier with inventory purchases greater than ten percent of the total inventory purchases at December 2006, 2005 or 2004.

We have identified alternative sources of supply for these integrated circuits, components, and finished goods; however, there can be no assurance that we will be able to continue to obtain these inventory purchases on a timely basis. We generally maintain inventories of our integrated 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.

Note 13 — Leases

We lease office and warehouse space and certain office equipment under operating leases that expire at various dates through December 31, 2012. Some of our rental leases are subject to rent escalations. For these leases, we straight-line our rent expense over the lease term, ranging from 36 to 73 months. The liability is recorded in other accrued expenses. As of December 31, 2006 and 2005, the liability related to rent escalations was $51 thousand and $12 thousand, respectively. Additionally, our corporate lease agreement contains a provision for a tenant improvement allowance of $0.4 million for us to renovate the building, which is to be paid to us upon completion of the renovation. The renovation is expected to be completed during 2007. We recorded the $0.4 million tenant improvement allowance in accounts receivable at December 31, 2006. Additionally, the tenant improvement allowance was recorded as a component of the lease liability in computing rent expense, and is amortized as a credit against rent expense, over 73 months, the term of the lease, beginning January 1, 2006.

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Rent expense for our operating leases was $1.8 million, $1.7 million, and $1.8 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The following table summarizes future minimum non-cancelable operating lease payments with initial terms greater than one year at December 31, 2006:

(in thousands)	Amount
Year ending December 31:	
2007	$ 1,653
2008	1,283
2009	967
2010	872
2011	809
Thereafter	682
Total operating lease commitments	$ 6,266

On January 31, 2007, we amended our existing lease agreement for our consumer and customer call center facility located in Twinsburg, Ohio, which resulted in the leased square footage increasing from 8,509 square feet to 21,509 square feet. The amended lease agreement is effective after the completion of certain leasehold improvements, which are expected to occur in April 2007 (the "commencement date"). This lease agreement is effective for four years after the commencement date and is subject to rent escalations each year. The total incremental operating lease payments from 2007 through 2011, based on the expected commencement date, will be approximately $300 thousand.

Note 14 — Employee Benefit Plans

We maintain a retirement and profit sharing plan under Section 401(k) of the Internal Revenue Code for all of our domestic employees that meet certain qualifications. Participants in the plan may elect to contribute from 1% to 15% of their annual salary to the plan. We match 50% of the participants' contributions in the form of newly issued shares of our common stock. We may also make other discretionary contributions to the plan. The expense recorded for company contributions during the years ended December 31, 2006, 2005 and 2004 amounted to $0.9 million, $0.6 million and $0.4 million, respectively.

Note 15 — Other (Expense) Income, net

"Other (expense) income, net" in the Consolidated Income Statements consisted of the following:

	Year Ended December 31,		
(in thousands)	2006	2005	2004
Net (loss) gain on foreign currency exchange transactions	$ (508)	$ 2,107	$ (152)
Write-down of investment	—	(3)	(357)
Other income (loss)	10	48	(31)
Other (expense) income, net	$ (498)	$ 2,152	$ (540)

Note 16 — Income Taxes

In 2006, 2005, and 2004, pre-tax income was attributed to the following jurisdictions:

	Year Ended December 31,		
(in thousands)	2006	2005	2004
Domestic operations	$ 7,932	$ 6,206	$ 4,488
Foreign operations	11,488	8,468	9,235
Total	$ 19,420	$ 14,674	$ 13,723

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(in thousands)	Year Ended December 31, 2006	2005	2004
Current tax expense:			
U.S. federal	$ 2,934	$ 1,382	$ 2,572
State and local	687	280	216
Foreign	2,997	3,311	1,515
Total current	6,618	4,973	4,303
Deferred tax expense/(benefit):			
U.S. federal	(297)	460	564
State and local	(578)	(363)	(200)
Foreign	157	(97)	(58)
Total deferred	(718)	—	306
Total provision	$ 5,900	$ 4,973	$ 4,609

Net deferred tax assets were comprised of the following at December 31, 2006 and 2005:

(in thousands)	2006	2005
Deferred tax assets:		
Inventory reserves	$ 448	$ 514
Allowance for doubtful accounts	46	59
Capitalized research costs	581	885
Capitalized inventory costs	470	727
Net operating losses	4,480	4,798
Amortization of intangibles	639	645
Accrued liabilities	1,103	837
Income tax credits	1,072	748
Depreciation	434	338
Stock based compensation	890	—
Other	196	285
Total deferred tax assets	$ 10,359	$ 9,836
Deferred tax liability:		
Intangible assets	(688)	(925)
Other	(255)	(193)
Total deferred tax liabilities	(943)	(1,118)
Net deferred tax assets before valuation allowance	9,416	8,718
Less: Valuation allowance	(620)	(620)
Net deferred tax assets	$ 8,796	$ 8,098

As of December 31, 2006, $235 thousand of current deferred tax liability was recorded in other accrued expenses.

There was no change in the deferred tax valuation allowance in 2006 compared to an increase of $0.1 million and $0.4 million in 2005 and 2004, respectively.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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,		
(in thousands)	2006	2005	2004
Tax provision at statutory U.S. rate	$ 6,603	$ 4,989	$ 4,666
Increase (decrease) in tax provision resulting from:			
State and local taxes, net	110	(83)	236
Foreign tax rate differential	(391)	335	184
Nondeductible items	207	50	34
In-process R&D	—	—	82
Federal valuation allowance	—	1	122
Federal research and development credits	(872)	(601)	(521)
Other	243	282	(194)
Tax provision	$ 5,900	$ 4,973	$ 4,609

During 2004, pursuant to our purchase of SimpleDevices, pretax book income reflects the write-off of IPR&D expenditures and amortization of certain acquired intangibles. The tax effects of intangibles, other than goodwill, are included in deferred tax liabilities. In connection with the acquisition, we established a $1.1 million deferred tax liability, and a $5.6 million deferred tax asset. The net result was an increase to goodwill of $4.5 million.

At December 31, 2006, we had state Research and Experimentation ("R&E") income tax credit carryforwards of approximately $1.1 million. The state R&E income tax credits do not have an expiration date.

At December 31, 2006, we had federal, state and foreign net operating losses of approximately $8.6 million, $9.3 million and $3.1 million, respectively. All of the federal and state net operating loss carryforwards were acquired as part of the acquisition of SimpleDevices. The federal and state net operating loss carryforwards begin to expire in 2020 and 2011, respectively. Approximately $1.2 million of the foreign net operating losses begin to expire in 2007, approximately $0.3 million expire in 2020 and the remaining $1.6 million of foreign net operating losses have an unlimited carryforward. At December 31, 2006, a valuation allowance of approximately $0.5 million has been provided on certain foreign net operating losses.

Internal Revenue Code Section 382 places certain limitations on the annual amount of net operating loss carryforwards that can be utilized if certain changes to a company's ownership occur. Our acquisition of SimpleDevices was a change in ownership pursuant to Section 382 of the Internal Revenue Code, and the federal and state net operating loss carryforwards of SimpleDevices (approximately $8.6 million and $9.3 million, respectively) are limited but considered realizable in future periods. The annual limitation is as follows: approximately $1.3 million for 2006 through 2008 and approximately $0.6 million thereafter.

As of December 31, 2006, we believed it was more likely than not that certain deferred tax assets related to the impairment of the investment in a private company (a capital asset) would not be realized due to uncertainties as to the timing and amounts of future capital gains. Accordingly, a valuation allowance of approximately $0.1 million was recorded as of December 31, 2006 (See Note 2 to the consolidated financial statements).

During the years ended December 31, 2006, 2005, and 2004 we recognized a credit to additional paid-in capital and a reduction to income taxes payable of $0.8 million, $0.9 million, and $0.5 million, respectively, related to the tax benefit from the exercises of non-qualified stock options under our stock option plans.

The undistributed earnings of our foreign subsidiaries are considered to be indefinitely reinvested. Accordingly, no provision for US federal and state income taxes or foreign withholding taxes has been provided on such undistributed earnings. Determination of the potential amount of unrecognized deferred

US income tax liability and foreign withholding taxes is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits would be available to reduce some portion of the U.S. liability.

During 2006, the Internal Revenue Service ("IRS") completed its audit of the December 31, 2002 and 2003 tax years which resulted in an increase to our 2006 tax provision of approximately $0.1 million. We also concluded our appeal with the California Franchise Tax Board ("FTB") for the years ended December 31, 1999 and 2000 which resulted in an immaterial adjustment to our 2006 tax provision.

Note 17 — Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of our common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and dilutive potential common shares, which includes the dilutive effect of stock options and restricted stock grants. Dilutive potential common shares for all the periods presented are computed utilizing the treasury stock method. In the computation of diluted earnings per common share for the years ended December 31, 2006, 2005 and 2004, approximately 5,333, 999,506 and 988,250 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 anti-dilutive.

Earnings per share for the years ended December 31, 2006, 2005 and 2004 were calculated as follows:

	Year Ended December 31,		
(in thousands, except per-share amounts)	2006	2005	2004
BASIC			
Net Income	$ 13,520	$ 9,701	$ 9,114
Weighted-average common shares outstanding	13,818	13,462	13,567
Basic earnings per share	$ 0.98	$ 0.72	$ 0.67
DILUTED			
Net Income	$ 13,520	$ 9,701	$ 9,114
Weighted-average common shares outstanding for basic	13,818	13,462	13,567
Dilutive effect of stock options and restricted stock	614	530	533
Weighted-average common shares outstanding on a diluted basis	14,432	13,992	14,100
Diluted earnings per share	$ 0.94	$ 0.69	$ 0.65

Note 18 — Business Segment

Industry Segment

SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*, defines an operating segment, in part, as a component of an enterprise whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Operating segments may be aggregated only to the limited extent permitted by the standard.

As a result of the performance-based incentive and other factors, management reviewed SimpleDevices' discrete operating results through the second quarter of 2006, and as a result, defined SimpleDevices as a separate segment. Since acquiring SimpleDevices, we have integrated SimpleDevices' technologies with and into our own technology. In addition, we have integrated SimpleDevices' sales, engineering and administrative functions into our own. As a result of the integration, the performance-based payment expiring and our chief operating decision maker ("CODM") no longer reviewing SimpleDevices' financial statements on a stand alone basis, commencing in the third quarter of 2006, we merged SimpleDevices into our Core Business segment, resulting in us operating in a single industry segment.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 19 — Foreign Operations

Geographic Information

Our sales to external customers and long-lived tangible assets by geographic area for years ended December 31, 2006, 2005 and 2004 are presented below:

	Year ended December 31,		
(in thousands)	2006	2005	2004
Net Sales			
United States	$126,522	$ 95,252	$ 75,121
International:			
United Kingdom	29,025	22,977	26,395
Asia	30,285	18,773	9,068
South Africa	8,140	3,685	1,793
Spain	7,513	6,484	10,535
Germany	7,014	7,357	8,620
France	4,846	5,852	7,021
Australia	3,028	2,678	2,217
Italy	1,799	1,026	682
Switzerland	851	4,689	3,194
All Other	16,823	12,576	13,734
Total International	109,324	86,097	83,259
Total Net Sales	$235,846	$181,349	$158,380

	December 31,		
	2006	2005	2004
Long-Lived Assets			
United States	$ 3,921	$ 3,137	$ 2,956
All Other Countries	2,199	1,618	3,711
	$ 6,120	$ 4,755	$ 6,667

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

Note 20 — Related Party Transactions

In April 1999, we provided a non-recourse interest bearing secured loan to our chief executive officer. The loan in the amount of $200,000 bears interest at the rate of 5.28% per annum, with interest payable annually to us 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 us but only in the event the executive officer ceases being our employee or in the event of a default under the loan; or (iii) on the closing of a sale or transfer of the property. This related party note receivable is included in accounts receivable on our balance sheet at December 31, 2006 and included in other assets on our balance sheet at December 31, 2005.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 21 — Contingencies

Product Warranties

We warrant our products against defects in materials and workmanship arising during normal use. We service warranty claims directly through our customer service department or contracted third-party warranty repair facilities. Our warranty period ranges up to three years. We provide for estimated product warranty expenses, which are included in cost of goods sold, as revenue is recognized. Because warranty expense is a forecast based on the best available information, mostly historical claims experience, actual claim costs may differ from the amounts provided. The change in the liability for product warranties is presented below (in thousands):

Description	Balance at Beginning of Period	Accruals for Warranties Issued During the Period	Settlements (in Cash or in Kind) During the Period	Balance at End of Period
Year Ended December 31, 2006	$414	$202	$(200)	$416
Year Ended December 31, 2005	$183	$443	$(212)	$414
Year Ended December 31, 2004	$ 95	$285	$(197)	$183

In 2006, the warranty accrual remained consistent with the prior year, despite an increase in sales volume, due to the per unit warranty cost decreasing by approximately 13%.

Litigation

In 2002, one of our subsidiaries (One For All S.A.S.) brought an action against a former distributor of the subsidiary's products seeking a recovery of accounts receivable. The distributor filed a counterclaim against our subsidiary seeking payment for amounts allegedly owed for administrative and other services rendered by the distributor for our subsidiary. In January 2005, the parties agreed to include in that action all claims between the distributor and two of our other subsidiaries, Universal Electronics BV ("UEBV") and One For All Iberia SL; as a result, the single action covers all claims and counterclaims between the various parties. The parties further agreed that, before any judgment is paid, all disputes between the various parties would be concluded. These additional claims involve nonpayment for products and damages resulting from the alleged wrongful termination of agency agreements. On March 15, 2005, the court in one of the litigation matters brought by the distributor against one of our subsidiaries, rendered judgment against the subsidiary and awarded damages and costs to the distributor in the amount of approximately $102,000. The amount of this judgment was charged to operations during the second quarter of 2005 and has been paid. With respect to the remaining matters before the court, the parties met with the court appointed expert in December 2006 and at that time, the expert again asked the court for an extension to finalize and file his pre-trial report with the court and the court granted this request. We now expect the expert to finalize and file his pre-trial report with the court during the quarter ending March 31, 2007, at which time we will respond.

On June 20, 2006, we filed suit against Remote Technologies, Inc. ("RTI") alleging that RTI has infringed certain of our patents. On July 28, 2006, we served RTI with a complaint, and RTI answered our complaint on August 28, 2006, denying our claims of infringement. In its answer, RTI also filed a counterclaim alleging that our patents are invalid and not infringed. On September 19, 2006, we answered RTI's counterclaim by denying its allegations and reasserting our original complaint. Principals of both companies have been involved in settlement discussions, and those discussions will continue. Because of the settlement discussions, we have not yet commenced significant discovery in this matter. If we are not able to settle this matter, we will vigorously pursue this matter against RTI and will defend against RTI's counterclaims.

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. We do not believe that any of the claims made against us in any of the pending matters have merit and we intend to vigorously defend ourselves against them.

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.

Note 22 — SimpleDevices, Inc.

From October 1, 2004 through December 31, 2004, we acquired over 99% of the outstanding shares of SimpleDevices, Inc. for approximately $12.8 million in cash, including direct acquisition costs of $0.3 million. We intend to purchase the remaining shares when the sellers are located. The results of SimpleDevices' operations have been included in the consolidated financial statements since the date of acquisition (October 1, 2004).

Pro forma results (unaudited)

The following unaudited pro forma financial information presents the combined results of our operations and SimpleDevices as if the acquisition had occurred at January 1, 2004. An adjustment of $84 thousand for the year ended December 31, 2004 was made to the combined results of operations, reflecting primarily the amortization of purchased intangible assets, net of tax. The pro-forma net income does not reflect the write-off of $240,000 of acquired in-process research and development of SimpleDevices.

Pro forma results for the year ended December 31, 2004 are listed below (in thousands):

Revenue:	$	159,760
Net income:	$	7,474
Basic and diluted net income per share:		
Basic	$	0.55
Diluted	$	0.53

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

Potential Performance-Based Payment of Unregistered Common Stock

On October 1, 2004, in conjunction with the purchase of SimpleDevices, we executed a Stock Option Exchange Agreement ("agreement") with the holders of non-vested options to purchase the common stock of SimpleDevices. The terms of this agreement included the cancellation of these non-vested options. In consideration for this cancellation we extended the right to receive 65,842 shares of Universal Electronic Inc. unregistered stock contingent on meeting certain performance based criteria, including specified operating income levels through the years ending December 31, 2005 and 2006. As of December 31, 2006, these performance targets were not met. As such, the performance-based payment has not been reflected as part of the purchase price as of December 31, 2006.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 23 — Quarterly Financial Data (Unaudited)
(In thousands, except per share amounts)

Summarized quarterly financial data for the years ended December 31, 2006 and 2005 are presented below:

	2006			
	March 31,	June 30,	September 30,	December 31,
Net sales	$54,173	$52,370	$ 59,612	$69,691
Gross profit	18,488	19,582	21,579	26,227
Operating income	3,130	4,043	4,628	6,716
Net income (1)	2,136	2,419	3,533	5,432
Earnings per share (2) :				
Basic	$ 0.16	$ 0.18	$ 0.26	$ 0.39
Diluted	$ 0.15	$ 0.17	$ 0.25	$ 0.37
Shares used in computing earnings per share:				
Basic	13,643	13,802	13,845	13,982
Diluted	14,240	14,356	14,415	14,717

	2005			
	March 31,	June 30,	September 30,	December 31,
Net sales	$41,502	$44,322	$ 46,206	$49,319
Gross profit	15,716	15,718	16,994	18,699
Operating income	1,684	974	3,671	5,348
Net income (3)	1,856	1,545	2,777	3,523
Earnings per share (2) :				
Basic	$ 0.14	$ 0.11	$ 0.21	$ 0.26
Diluted	$ 0.13	$ 0.11	$ 0.20	$ 0.25
Shares used in computing earnings per share:				
Basic	13,518	13,467	13,391	13,472
Diluted	14,082	13,983	13,918	13,984

(1) During the fourth quarter of 2006, the federal research and development tax credit statute was re-enacted, resulting in a tax benefit of approximately $500 thousand for the quarter.

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

(3) The comparability of the financial data for the second quarter of 2005 is affected by a one-time $1.6 million write down of a balance due from a former European distributor.

UNIVERSAL ELECTRONICS INC.
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005, AND 2004

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Write-offs	Balance at End of Period
Valuation account for inventory:				
Year Ended December 31, 2006	$2,274	$1,810	$(1,905)	$2,179
Year Ended December 31, 2005	$3,806	$2,735	$(4,267)	$2,274
Year Ended December 31, 2004	$3,026	$3,788	$(3,008)	$3,806

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Write-offs	Balance at End of Period
Valuation account for income tax:				
Year Ended December 31, 2006	$620	—	—	$620
Year Ended December 31, 2005	$536	$ 84	—	$620
Year Ended December 31, 2004	$137	$399	—	$536

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Exchange Act Rule 13a-15(d) defines “disclosure controls and procedures” to mean controls and procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms. The definition further states that disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

An evaluation was performed under the supervision and with the participation of our management, including our principal executive and principal financial officers, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this report, to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Management’s Annual Report on Internal Control Over Financial Reporting

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

Under the supervision and with the participation of our management, including our principal executive and principal financial officers, we evaluated the effectiveness of our internal control over financial reporting based on the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2006.

Management’s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in its attestation report which is included herein.

Changes in Internal Control Over Financial Reporting

There have been no changes in internal controls or in other factors that could significantly affect our internal controls subsequent to the date the Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) completed their evaluation.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders
Universal Electronics Inc.

We have audited management's assessment, included in the accompanying Universal Electronics Inc. Management's Annual Report on Internal Control Over Financial Reporting, that Universal Electronics Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Universal Electronics Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Universal Electronics Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by COSO. Also, in our opinion, Universal Electronics Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Universal Electronics Inc. as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2006, and our report dated March 9, 2007 expressed an unqualified opinion thereon.

/s/ Grant Thornton LLP
Irvine, California
March 9, 2007

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Information required by Item 401 of Regulation S-K with respect to our directors will be contained in and is hereby incorporated by reference to our definitive Proxy Statement for our 2007 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Exchange Act. Information regarding executive officers of the Company is set forth in Part I of this Form 10-K.

Information required by Item 405 of Regulation S-K will be contained in and is hereby incorporated by reference to our definitive Proxy Statement for our 2007 Annual Meeting of Stockholders to be filed subsequent to the date of filing this Form 10-K, under the caption "Section 16(a) Beneficial Ownership Reporting Compliance." Copies of Section 16 reports, Forms 3, 4 and 5, are available on our website, www.uei.com under the caption "SEC Filings" on the Investor page.

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

Information required by Items 407(c)(3), (d)(4) and (d)(5) of Regulation S-K will be contained in and is hereby incorporated by reference to our definitive Proxy Statement for our 2007 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Exchange Act.

ITEM 11. EXECUTIVE COMPENSATION

Information required by Items 402 and 407(e)(4) and (e)(5) of Regulation S-K will be contained in and is hereby incorporated by reference to our definitive Proxy Statement for our 2007 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Exchange Act.

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

Information required by Item 403 of Regulation S-K will be contained in and is hereby incorporated by reference to our definitive Proxy Statement for our 2007 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Exchange Act.

The following summarizes our equity compensation plans at December 31, 2006:

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	1,346,519	$13.81	1,202,938
Equity compensation plans not approved by security holders	1,133,830	13.49	60,059
Total	**2,480,349**	**$13.73**	**1,262,997**

See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA- Notes to Consolidated Financial Statements — Note 11" for a description of each of our stock option plans.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by Items 404 and 407(a) of Regulation S-K will be contained in and is hereby incorporated by reference to our definitive Proxy Statement for our 2007 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Exchange Act.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item will be contained in and is hereby incorporated by reference to our definitive Proxy Statement for our 2007 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Exchange Act.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) **List of Financial Statements**

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

(a)(2) **List of Financial Statement Schedules**

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

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

See EXHIBIT INDEX at page 79 to Form 10-K.

SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Cypress, State of California on the 16th day of March, 2007.

UNIVERSAL ELECTRONICS INC.

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

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Paul D. Arling and Bryan M. Hackworth as true and lawful attorneys-in-fact and agents, each acting alone, with full powers of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully for all intents and purposes as he might or 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 16th day of March, 2007, by the following persons on behalf of the registrant and in the capacities indicated.

NAME & TITLE	SIGNATURE
Paul D. Arling *Chairman and Chief Executive Officer* (principal executive officer)	/s/ Paul D. Arling
Bryan M. Hackworth *Chief Financial Officer* (principal financial officer and principal accounting officer)	/s/ Bryan M. Hackworth
Satjiv S. Chahil *Director*	/s/ Satjiv S. Chahil
Bruce A. Henderson *Director and Audit Committee Chairman*	/s/ Bruce A. Henderson
William C. Mulligan *Director and Audit Committee Member*	/s/ William C. Mulligan
J. C. Sparkman *Director*	/s/ J.C. Sparkman
Edward K. Zinser *Director and Audit Committee Member*	/s/ Edward K. Zinser

EXHIBIT INDEX

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

Exhibit Number	Document Description
*10.8	Form of Amendment to Salary Continuation Agreement by and between Universal Electronics Inc. and certain employees (Incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, filed on March 30, 1998 (File No. 0-21044))
*10.9	Form of Universal Electronics Inc. 1998 Stock Incentive Plan (Incorporated by reference to Exhibit A to the Company's Definitive Proxy Materials for the 1998 Annual Meeting of Stockholders of Universal Electronics Inc. filed on April 20, 1998 (File No. 0-21044))
*10.10	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain employees used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 1998 Stock Incentive Plan(Incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
*10.11	Form of Universal Electronics Inc. 1999 Stock Incentive Plan (Incorporated by reference to Exhibit A to the Company's Definitive Proxy Materials for the 1999 Annual Meeting of Stockholders of Universal Electronics Inc. filed on April 29, 1999 (File No. 0-21044))
*10.12	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain employees used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 1999 Stock Incentive Plan (Incorporated by reference to Exhibit A to the Company's Definitive Proxy Materials for the 1999 Annual Meeting of Stockholders of Universal Electronics Inc. filed on April 29, 1999 (File No. 0-21044))
*10.13	Form of Salary Continuation Agreement by and between Universal Electronics Inc. and certain employees (Incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 filed on March 30,2000 (File No. 0-21044))
*10.14	Form of Universal Electronics Inc. 1999A Nonqualified Stock Plan effective October 7, 1999 and subsequently amended February 1, 2000 (Incorporated by reference to Exhibit 10.42 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 filed on March 30, 2000 (File No. 0-21044))
*10.15	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain employees used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 1999A Nonqualified Stock Plan (Incorporated by reference to Exhibit 10.43 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 filed on March 30, 2000 (File No. 0-21044))
*10.16	Form of Universal Electronics Inc. 2002 Stock Incentive Plan (Incorporated by reference to Exhibit 10.49 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed on August 14, 2002 (File No. 0-21044))
*10.17	Form of Stock Option Agreement by and between Universal Electronics Inc. and certain directors, officers and other employees used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 2002 Stock Incentive Plan (Incorporated by reference to Exhibit 10.50 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed on August 14, 2002 (File No. 0-21044))
*10.18	Form of Universal Electronics Inc. 2003 Stock Incentive Plan (Incorporated by reference to Appendix B to the Company's Definitive Proxy Materials for the 2003 Annual Meeting of Stockholders of Universal Electronics Inc. filed on April 28, 2003 (File No. 0-21044))
10.19	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))

Exhibit Number	Document Description
10.20	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))
*10.21	Form of Executive Officer Employment Agreement dated April 23, 2003 by and between Universal Electronics Inc. and Paul D. Arling (incorporated by reference to Exhibit 10.42 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 filed on March 14, 2004 (File No. 0-21044))
*10.22	Form of Executive Officer Employment Agreement dated April 2003 by and between Universal Electronics Inc. and Robert P. Lilleness (incorporated by reference to Exhibit 10.43 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 filed on March 14, 2004 (File No. 0-21044))
*10.23	Form of First Amendment to Executive Officer Employment Agreement dated October 21, 2005 by and between Universal Electronics Inc. and Paul D. Arling (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 filed on March 16, 2006 (File No. 0-21044))
10.24	Third Amendment to Lease dated December 1, 2006 between Warland Investments Company and Universal Electronics Inc. (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 filed on March 16, 2006 (File No. 0-21044))
*10.25	Employment and Separation Agreement and General Release dated August 17, 2006 between Robert P. Lilleness and Universal Electronics Inc. (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on August 22, 2006 (File No. 0-21044))
10.26	Form of Lease dated January 31, 2007 between FirstCal Industrial 2 Acquisition, LLC and Universal Electronics Inc. (filed herewith)
10.27	Amendment Number One to Credit Agreement dated August 29, 2006 between Comerica Bank and Universal Electronics Inc. (filed herewith)
*10.28	Form of Indemnification Agreements, dated as of January 2, 2007 between the Company and each director and certain officers of the Company, being the following: Paul D. Arling, Paul J. M. Bennett, Satjiv S. Chahil, Richard A. Firehammer, Jr., Bryan M. Hackworth, Bruce A. Henderson, Michael Koch, Mark S. Kopaskie, William C. Mulligan, J. C. Sparkman, and Edward K. Zinser (filed herewith).
14.1	Code of Conduct (incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 filed on March 14, 2004 (File No. 0-21044))
21.1	List of Subsidiaries of the Registrant (filed herewith)
23.1	Consent of Independent Registered Public Accounting Firm — Grant Thornton LLP (filed herewith)
23.2	Consent of Independent Registered Public Accounting Firm — 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 (principal financial officer and principal accounting officer) (filed herewith)
32.1	Section 1350 Certifications of the Chief Executive Officer (filed herewith)
32.2	Section 1350 Certifications of the Chief Financial Officer (principal financial officer and principal accounting officer) (filed herewith)

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

EXHIBIT 10.26

LEASE

THIS LEASE (the "Lease") is executed this _____ day of _______________________, 2007, by and between FirstCal Industrial 2 Acquisition, LLC, a Delaware limited liability company ("Landlord"), and Universal Electronics Inc., a Delaware corporation ("Tenant").

ARTICLE 1 - LEASE OF PREMISES

Section 1.01. Basic Lease Provisions and Definitions.

(a) Leased Premises (shown in EXHIBIT A hereto): 1864 Enterprise Parkway, Twinsburg, Ohio (the "Building").

(b) Rentable Area: approximately 21,509 square feet.

(c) Tenant's Proportionate Share: 32.54%.

(d) Minimum Annual Rent:

Year 1	$107,554.96
Year 2	$112,922.28
Year 3	$118,299.48
Year 4	$123,676.80

(e) Monthly Rental Installments:

Months 1 - 12	$ 8,962.08
Months 13 - 24	$ 9,410.19
Months 25 - 36	$ 9,858.29
Months 37 - 48	$10,306.40

(f) Intentionally Omitted

(g) Target Commencement Date: March 1, 2007.

(h) Lease Term: four (4) years.

(i) Security Deposit: $8,962.08, of which $3,138.96 is currently held by Landlord and $5,823.12 ("Additional Security Deposit") due from Tenant.

(j) Broker(s): Grubb and Ellis representing Landlord.

(k) Permitted Use: General office and related purposes, together with a call center including product storage, servicing and fulfillment.

(l) Address for notices and payments are as follows:

Landlord: First Industrial Realty Trust, Inc.
4742 Creek Road
Cincinnati, OH 45242

With
Payments to: FirstCal Industrial 2 Acquisition, LLC
PO Box 809137
Chicago, IL 60680

Tenant: Universal Electronics Inc.
1864 Enterprise Parkway
Twinsburg, OH 44087

With a copy to: Universal Electronics Inc.
8190 Carrington Place
Bainbridge Township, OH 44023
ATTN: Sr. Vice President and General Counsel

EXHIBITS
Exhibit A - Leased Premises
Exhibit A-1 - The Downsize Portion
Exhibit A-2 - Leased Premises After The Downsize Date
Exhibit B - Tenant Improvements
Exhibit B-1 - Construction Drawing
Exhibit C - Letter of Understanding
Exhibit D - Intentionally Omitted
Exhibit E - Rules and Regulations
Exhibit F - Tenant Operations Inquiry Form
Lease Addendum A - Downsize Option
Lease Addendum B - Renewal Option

Section 1.02. Lease of Premises. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Leased Premises, under the terms and conditions herein, together with a non-exclusive right, in common with others, to use the following (collectively, the "Common Areas"): the areas of the Building and the underlying land and improvements thereto that are designed for use in common by all tenants of the Building and their respective employees, agents, customers, invitees and others.

ARTICLE 2 - TERM AND POSSESSION

Section 2.01. Term. The Lease Term shall commence as of the date (the "Commencement Date") that Substantial Completion (as defined in EXHIBIT B hereto) of the Tenant Improvements (as defined in Section 2.02 below) occurs.

Section 2.02. Construction of Tenant Improvements. Landlord shall construct and install all leasehold improvements to the Leased Premises (collectively, the "Tenant Improvements") in accordance with EXHIBIT B attached hereto and made a part hereof.

Section 2.03. Surrender of the Premises. Upon the expiration or earlier termination of this Lease, Tenant shall, at its sole cost and expense, immediately (a) surrender the Leased Premises to Landlord in broom-clean condition and in good order, condition and repair, (b) remove from the Leased Premises (i) Tenant's Property (as defined in Section 8.01 below), and (ii) any alterations required to be removed pursuant to Section 7.03 below, and (c) repair any damage caused by any such removal and restore the Leased Premises to the condition existing upon the Commencement Date, reasonable wear and tear excepted. All of Tenant's Property that is not removed within ten (10) days following Landlord's written demand therefor shall be conclusively deemed to have been abandoned and Landlord shall be entitled to dispose of such property at Tenant's cost without incurring any liability to Tenant. This Section 2.03 shall survive the expiration or any earlier termination of this Lease.

Section 2.04. Holding Over. If Tenant retains possession of the Leased Premises after the expiration or earlier termination of this Lease, Tenant shall be a tenant at sufferance at one hundred fifty percent (150%) of the Monthly Rental Installments for the Leased Premises in effect upon the date of such expiration or earlier termination, and otherwise upon the terms, covenants and conditions herein specified, so far as applicable. Acceptance by Landlord of rent after such expiration or earlier termination shall not result in a renewal of this Lease, nor shall such acceptance create a month-to-month tenancy. In the event a month-to-month tenancy is created by operation of law, either party shall have the right to terminate such month-to-month tenancy upon thirty (30) days' prior written notice to the other, whether or not said notice is given on the rent paying date. This Section 2.04 shall in no way constitute a consent by Landlord to any holding over by Tenant upon the expiration or earlier termination of this Lease, nor limit Landlord's remedies in such event.

ARTICLE 3 - RENT

Section 3.01. Base Rent. Tenant shall pay to Landlord the Minimum Annual Rent in the Monthly Rental Installments in advance, without demand, deduction or offset, or the Commencement Date and on or before the first day of each and every calendar month thereafter during the Lease Term. The Monthly Rental Installments for partial calendar months shall be prorated. Tenant shall be responsible for delivering the Monthly Rental Installments to the payment address set forth in Section 1.01(l) above in accordance with this Section 3.01.

Section 3.02. Annual Rental Adjustment Definitions.

(a) "Annual Rental Adjustment" shall mean the amount of Tenant's Proportionate Share of Operating Expenses for a particular calendar year.

(b) "Operating Expenses" shall mean the amount of all of Landlord's costs and expenses paid or incurred in operating, repairing, replacing and maintaining the Building and the Common Areas in good condition and repair for a particular calendar year, including by way of illustration and not limitation, the following: all Real Estate Taxes (as hereinafter defined), insurance premiums and deductibles; water, sewer, electrical and other utility charges other than the separately billed electrical and other charges paid by Tenant as provided in this Lease (or other tenants in the Building); painting; stormwater discharge fees; tools and supplies; repair costs; landscape maintenance costs; access patrols; license, permit and inspection fees; management fees; administrative fees; supplies, costs, wages and related employee benefits payable for the management, maintenance and operation of the Building; maintenance, repair and replacement of the driveways, parking areas, curbs and sidewalk areas (including snow and ice removal), landscaped areas, drainage strips, sewer lines, exterior walls, foundation, structural frame, roof, gutters and lighting; and maintenance and repair costs, dues, fees and assessments incurred under any covenants or charged by any owners association. The cost of any Operating Expenses that are capital in nature shall be amortized over the useful life of the improvement (as reasonably determined by Landlord), and only the amortized portion shall be included in Operating Expenses.

Operating Costs shall not include the following: (i) tenant improvements, leasing commissions, and advertising and marketing costs for leasing of space, (ii) depreciation, and principal and interest on mortgages or other debt, (iii) legal expenses incurred in enforcing the terms of any other lease; (iv) interest or amortization payments of any Mortgage; (v) any costs, fines, or penalties incurred due to violations by Landlord of any applicable governmental rule, regulation, code or law; (vi) costs attributable to repairing items that are recovered by Landlord through enforcement of warranties; and (vii) any cost or expense of any nature whatsoever, other than Operating Expenses, which Landlord shall incur in connection with the management, operation, or maintenance of the Building or Common Areas which is specifically reimbursed to Landlord from any source, or charged directly to the tenant on whose behalf it was incurred (whether or not the same shall finally be paid by such tenant), or for which Landlord is otherwise compensated or recoups such expense by way of setoff, reductions or recovery allowed, or otherwise.

(c) "Tenant's Proportionate Share of Operating Expenses" shall mean an amount equal to the product of Tenant's Proportionate Share times the Operating Expenses.

(d) "Real Estate Taxes" shall mean any form of real estate tax or assessment or service payments in lieu thereof, and any license fee, commercial rental tax, improvement bond or other similar charge or tax (other than inheritance, personal income or estate taxes) imposed upon the Building or Common Areas, or against Landlord's business of leasing the Building, by any authority having the power to so charge or tax, together with costs and expenses of contesting the validity or amount of the Real Estate Taxes.

Section 3.03. Payment of Additional Rent.

(a) Any amount required to be paid by Tenant hereunder (in addition to Minimum Annual Rent) and any charges or expenses incurred by Landlord on behalf of Tenant under the terms of this Lease shall be considered "Additional Rent" payable in the same manner and upon the same terms and conditions as the Minimum Annual Rent reserved hereunder, except as set forth herein to the contrary. Any failure on the part of Tenant to pay such Additional Rent when and as the same shall become due shall entitle Landlord to the remedies available to it for non-payment of Minimum Annual Rent.

(b) In addition to the Minimum Annual Rent specified in this Lease, commencing as of the Commencement Date, Tenant shall pay to Landlord as Additional Rent for the Leased Premises, in each calendar year or partial calendar year during the Lease Term, an amount equal to the Annual Rental Adjustment for such calendar year. Landlord shall estimate the Annual Rental Adjustment annually, and written notice thereof shall be given to Tenant prior to the beginning of each calendar year. Tenant shall pay to Landlord each month, at the same time the Monthly Rental Installment is due, an amount equal to one-twelfth (1/12) of the estimated Annual Rental Adjustment to the payment address set forth in Section 1.01(l) above in accordance with this Section 3.03. If Operating Expenses increase during a calendar year, Landlord may increase the estimated Annual Rental Adjustment during such year by giving Tenant thirty (30) days written notice to that effect, together with documentation prepared by Landlord in the ordinary course of its business in support of such increase, and thereafter Tenant shall pay to Landlord, in each of the remaining months of such year, an amount equal to the amount of such increase in the estimated Annual Rental Adjustment divided by the number of months remaining in such year. Within a reasonable time after the end of each calendar year, Landlord shall prepare and deliver to Tenant a statement showing the actual Annual Rental Adjustment, together with documentation prepared by Landlord in the ordinary course of its business in support of such costs. Within thirty (30) days after receipt of the aforementioned statement, Tenant shall pay to Landlord, or Landlord shall credit against the next rent payment or payments due from Tenant (or reimburse Tenant if for the last year of the Lease

Term), as the case may be, the difference between the actual Annual Rental Adjustment for the preceding calendar year and the estimated amount paid by Tenant during such year. As soon as is reasonably practical after each calendar year during the Lease Term (each such year, an "OPERATING YEAR"), Landlord shall provide Tenant with a statement (a "STATEMENT") setting forth the actual ultimate Annual Rental Adjustment for the subject Operating Year. If Tenant disputes the amount set forth in a given Statement, Tenant shall have the right, at Tenant's sole expense, to cause Landlord's books and records with respect to the particular Operating Year that is the subject of that particular Statement to be audited (the "AUDIT") by a certified public accountant or firm of certified public accountants mutually acceptable to Landlord and Tenant (the "ACCOUNTANT"), provided Tenant (i) has not defaulted under this Lease and failed to cure such default on a timely basis and (ii) delivers written notice (an "AUDIT NOTICE") to Landlord on or prior to the date that is forty-five (45) days after Landlord delivers the Statement in question to Tenant (such 30-day period, the "RESPONSE PERIOD"). If Tenant fails to timely deliver an Audit Notice with respect to a given Statement, then Tenant's right to undertake an Audit with respect to that Statement and the Operating Year to which that particular Statement relates shall automatically and irrevocably be waived and such Statement shall be final and binding upon Tenant and shall, as between the parties, be conclusively deemed correct. If Tenant timely delivers an Audit Notice, Tenant must commence such Audit within thirty (30) days after the Audit Notice is delivered to Landlord, and the Audit must be completed within thirty (30) days of the date on which it is begun. If Tenant fails, for any reason, to commence and complete the Audit within such periods, the Statement that Tenant elected to Audit shall be deemed final and binding upon Tenant and shall, as between the parties, be conclusively deemed correct. The Audit shall take place at the offices of Landlord where its books and records are located, at a mutually convenient time during Landlord's regular business hours. Before conducting the Audit, Tenant must pay the full amount of the Annual Rental Adjustment billed under the Statement then in question. Tenant hereby covenants and agrees that the Accountant engaged by Tenant to conduct the Audit shall be compensated on an hourly or flat-fee basis and shall not be compensated based upon a percentage of overcharges it discovers. If an Audit is conducted in a timely manner, such Audit shall be deemed final and binding upon Landlord and Tenant and shall, as between the parties, be conclusively deemed correct. If the results of the Audit reveal that the actual ultimate Annual Rental Adjustment does not equal the aggregate amount of the Annual Rental Adjustment actually paid by Tenant to Landlord for the Operating Year that is the subject of the Audit, the appropriate adjustment shall be made between Landlord and Tenant, and any payment required to be made by Landlord or Tenant to the other shall be made within thirty (30) days after the Accountant's determination. In no event shall this Lease be terminable nor shall Landlord be liable for damages based upon any disagreement regarding an adjustment of the Annual Rental Adjustment. Tenant agrees that the results of any Audit shall be kept strictly confidential by Tenant and shall not be disclosed to any other person or entity.

Section 3.04. Late Charges. Tenant acknowledges that Landlord shall incur certain additional unanticipated administrative and legal costs and expenses if Tenant fails to pay timely any payment required hereunder. Therefore, in addition to the other remedies available to Landlord hereunder, if Tenant fails to pay to Landlord any sum due under this Lease on a timely basis, then if such payment is not made within the cure period provided in SECTION 13.01, then from and after the expiration of such cure period, the delinquent payment shall bear interest from the due date thereof to the date of payment at the "prime" rate of interest, as reported in the Wall Street Journal (the "Prime Rate") plus six percent (6%) per annum ("DEFAULT INTEREST RATE").

ARTICLE 4 - SECURITY DEPOSIT

Upon execution and delivery of this Lease by Tenant, Tenant shall deposit the Additional Security Deposit with Landlord as security for the performance by Tenant of all of Tenant's obligations contained in this Lease. In the event of a default by Tenant, Landlord may apply all or any part of the

Security Deposit to cure all or any part of such default; provided, however, that any such application by Landlord shall not be or be deemed to be an election of remedies by Landlord or considered or deemed to be liquidated damages. Tenant agrees promptly, upon demand, to deposit such additional sum with Landlord as may be required to maintain the full amount of the Security Deposit. All sums held by Landlord pursuant to this Article 4 shall be without interest and may be commingled by Landlord. At the end of the Lease Term, provided that there is then no uncured default or any repairs required to be made by Tenant pursuant to Section 2.03 above or Section 7.03 below, Landlord shall return the Security Deposit to Tenant.

ARTICLE 5 - OCCUPANCY AND USE

Section 5.01. Use. Tenant shall use the Leased Premises for the Permitted Use and for no other purpose without the prior written consent of Landlord.

Section 5.02. Covenants of Tenant Regarding Use.

(a) Tenant shall (i) use and maintain the Leased Premises and conduct its business thereon in a safe, careful, reputable and lawful manner, (ii) comply with all covenants that encumber the Building and all laws, rules, regulations, orders, ordinances, directions and requirements of any governmental authority or agency, now in force or which may hereafter be in force, including, without limitation, those which shall impose upon Landlord or Tenant any duty with respect to or triggered by a change in the use or occupation of, or any improvement or alteration to, the Leased Premises, and (iii) comply with and obey all reasonable directions, rules and regulations of Landlord, including the Building Rules and Regulations attached hereto as EXHIBIT E and made a part hereof, as may be modified from time to time by Landlord on reasonable notice to Tenant.

(b) Tenant shall not do or permit anything to be done in or about the Leased Premises that will in any way cause a nuisance, obstruct or interfere with the rights of other tenants or occupants of the Building or injure or annoy them. Landlord shall not be responsible to Tenant for the non-performance by any other tenant or occupant of the Building of any of Landlord's directions, rules and regulations, but agrees that any enforcement thereof shall be done uniformly. Tenant shall not overload the floors of the Leased Premises. All damage to the floor structure or foundation of the Building due to improper positioning or storage of items or materials shall be repaired by Landlord at the sole expense of Tenant, who shall reimburse Landlord immediately therefor upon demand. Tenant shall not use the Leased Premises, nor allow the Leased Premises to be used, for any purpose or in any manner that would (i) invalidate any policy of insurance now or hereafter carried by Landlord on the Building, or (ii) increase the rate of premiums payable on any such insurance policy unless Tenant reimburses Landlord for any increase in premium charged.

Section 5.03. Landlord's Rights Regarding Use. Without limiting any of Landlord's rights specified elsewhere in this Lease (a) Landlord shall have the right at any time, without notice to Tenant, to control, change or otherwise alter the Common Areas in such manner as it deems necessary or proper, and (b) Landlord, its agents, employees and contractors and any mortgagee of the Building shall have the right to enter any part of the Leased Premises at reasonable times upon reasonable notice (except in the event of an emergency where no notice shall be required provided that Landlord use reasonable efforts under the circumstances to provide such notice to Tenant) for the purposes of examining or inspecting the same (including, without limitation, testing to confirm Tenant's compliance with this Lease), showing the same to prospective purchasers, mortgagees or tenants, and making such repairs, alterations or improvements to the Leased Premises or the Building as Landlord may deem necessary or desirable. Landlord shall incur no liability to Tenant for such entry, nor shall such entry constitute an eviction of

Tenant or a termination of this Lease, or entitle Tenant to any abatement of rent therefor. Notwithstanding the foregoing, Landlord shall not unreasonably interfere with Tenant's use of and operation from the Leased Premises in exercising the foregoing rights.

Section 5.04. Tenant Operations Inquiry Form. On or prior to the date hereof, Tenant has completed and delivered for the benefit of Landlord a "Tenant Operations Inquiry Form" in the form attached hereto as EXHIBIT F describing the nature of Tenant's proposed business operations at the Premises, which form is intended to, and shall be, relied upon by Landlord. From time to time during the Lease Term (but no more often than once in any twelve month period unless Tenant is in default hereunder or unless Tenant assigns this Lease or subleases all or any portion of the Leased Premises, whether or not in accordance with SECTION 11), Tenant shall provide an updated and current Tenant Operations Inquiry Form upon Landlord's request.

ARTICLE 6 - UTILITIES

Tenant shall obtain in its own name and pay directly to the appropriate supplier the cost of all utilities and services serving the Leased Premises. However, if any services or utilities are jointly metered with other property, Landlord shall make a reasonable determination of Tenant's proportionate share of the cost of such utilities and services (at rates that would have been payable if such utilities and services had been directly billed by the utilities or services providers) and Tenant shall pay such share to Landlord within thirty (30) days after receipt of Landlord's written statement. Landlord shall not be liable in damages or otherwise for any failure or interruption of any utility or other Building service and no such failure or interruption shall entitle Tenant to terminate this Lease or withhold sums due hereunder unless due to the negligence or intentional acts or omissions of Landlord or its employees, contractors, or agents in which event rent shall abate for the period of time that Tenant is unable to use or operate from the Leased Premises. Notwithstanding the foregoing, the electrical and gas utilities are separately metered as of the Commencement Date of this Lease.

ARTICLE 7 - REPAIRS, MAINTENANCE AND ALTERATIONS

Section 7.01. Repair and Maintenance of Building. Landlord shall make all necessary repairs, replacements and maintenance to the roof, sprinkler systems, exterior walls, foundation, structural frame of the Building and the parking and landscaped areas and other Common Areas. The cost of such repairs, replacements and maintenance shall be included in Operating Expenses to the extent provided in Section 3.02; provided however, to the extent any such repairs, replacements or maintenance are required because of the negligence, misuse or default of Tenant, its employees, agents, contractors, customers or invitees, Landlord shall make such repairs at Tenant's sole expense, subject to the terms and conditions of Section 8.06.

Section 7.02. Repair and Maintenance of Leased Premises. Tenant shall, at its own cost and expense, maintain the Leased Premises in good condition, regularly servicing and promptly making all repairs and replacements thereto, including but not limited to the electrical systems, heating and air conditioning systems, plate glass, floors, windows and doors, and plumbing systems which service the Leased Premises. Tenant shall obtain a preventive maintenance contract on the heating, ventilating and air-conditioning systems which service the Leased Premises and provide Landlord with a copy thereof. The preventive maintenance contract shall meet or exceed Landlord's standard maintenance criteria, and shall provide for the inspection and maintenance of the heating, ventilating and air conditioning system on at least a semi-annual basis.

Section 7.03. Alterations. Tenant shall not permit alterations in or to the Leased Premises unless and until Landlord has approved the plans therefor in writing. As a condition of such approval, Landlord may require Tenant to remove the alterations and restore the Leased Premises upon termination of this Lease; otherwise, all such alterations shall at Landlord's option become a part of the realty and the property of Landlord, and shall not be removed by Tenant. Tenant shall ensure that all alterations shall be made in accordance with all applicable laws, regulations and building codes, in a good and workmanlike manner and of quality equal to or better than the original construction of the Building. No person shall be entitled to any lien derived through or under Tenant for any labor or material furnished to the Leased Premises, and nothing in this Lease shall be construed to constitute Landlord's consent to the creation of any lien. If any lien is filed against the Leased Premises for work claimed to have been done for or material claimed to have been furnished to Tenant (other than work performed by or at the direction of Landlord), Tenant shall cause such lien to be discharged of record within thirty (30) days after filing. Tenant shall indemnify Landlord from all costs, losses, expenses and attorneys' fees in connection with any construction or alteration and any related lien.

ARTICLE 8 - INDEMNITY AND INSURANCE

Section 8.01. Release. All of Tenant's trade fixtures, merchandise, inventory and all other personal property in or about the Leased Premises, the Building or the Common Areas, which is deemed to include the trade fixtures, merchandise, inventory and personal property of others located in or about the Leased Premises or Common Areas at the invitation, direction or acquiescence (express or implied) of Tenant (all of which property shall be referred to herein, collectively, as "Tenant's Property"), shall be and remain at Tenant's sole risk. Landlord shall not be liable to Tenant or to any other person for, and Tenant hereby releases Landlord from (a) any and all liability for theft or damage to Tenant's Property, and (b) any and all liability for any injury to Tenant or its employees, agents, contractors, guests and invitees in or about the Leased Premises, the Building or the Common Areas, except to the extent of personal injury (but not property loss or damage) caused directly by the negligence or willful misconduct of Landlord, its agents, employees or contractors. Nothing contained in this Section 8.01 shall limit (or be deemed to limit) the waivers contained in Section 8.06 below. In the event of any conflict between the provisions of Section 8.06 below and this Section 8.01, the provisions of Section 8.06 shall prevail. This Section 8.01 shall survive the expiration or earlier termination of this Lease.

Section 8.02. Indemnification by Tenant. Tenant shall protect, defend, indemnify and hold Landlord, its agents, employees and contractors harmless from and against any and all claims, damages, demands, penalties, costs, liabilities, losses, and expenses (including reasonable attorneys' fees and expenses at the trial and appellate levels) to the extent (a) arising out of or relating to any act, omission, negligence, or willful misconduct of Tenant or Tenant's agents, employees, contractors, customers, or invitees in or about the Leased Premises, the Building or the Common Areas, (b) arising out of or relating to any of Tenant's Property, or (c) arising out of any other act or occurrence within the Leased Premises, in all such cases except to the extent of personal injury (but not property loss or damage) caused directly by the negligence or willful misconduct of Landlord, its agents, employees or contractors. Nothing contained in this Section 8.02 shall limit (or be deemed to limit) the waivers contained in Section 8.06 below. In the event of any conflict between the provisions of Section 8.06 below and this Section 8.02, the provisions of Section 8.06 shall prevail. This Section 8.02 shall survive the expiration or earlier termination of this Lease.

Section 8.03. Indemnification by Landlord. Landlord shall protect, defend, indemnify and hold Tenant, its agents, employees and contractors harmless from and against any and all claims, damages, demands, penalties, costs, liabilities, losses and expenses (including reasonable attorneys' fees and expenses at the trial and appellate levels) to the extent arising out of or relating to any act, omission, negligence or willful misconduct of Landlord or Landlord's agents, employees, invitees or contractors. Nothing contained in this Section 8.03 shall limit (or be deemed to limit) the waivers contained in Section

8.06 below. In the event of any conflict between the provisions of Section 8.06 below and this Section 8.03, the provisions of Section 8.06 shall prevail. This Section 8.03 shall survive the expiration or earlier termination of this Lease.

Section 8.04. Tenant's Insurance. Tenant shall purchase, at its own expense, and keep in force at all times during the Lease Term the policies of insurance set forth below (collectively, "Tenant's Policies"). All Tenant's Policies shall (a) be issued by an insurance company with a Best's rating of A or better and otherwise reasonably acceptable to Landlord and shall be licensed to do business in the state in which the Leased Premises is located; (b) provide that said insurance shall not be canceled or materially modified unless 30 days' prior written notice shall have been given to Landlord; (c) provide for deductible amounts that are reasonably acceptable to Landlord (and its lender, if applicable) and (d) otherwise be in such form, and include such coverages, as Landlord may reasonably require. The Tenant's Policies described in (i) and (ii) below shall (1) provide coverage on an occurrence basis; (2) name Landlord (and its lender, if applicable) as additional insured; (3) provide coverage, to the extent insurable, for the indemnity obligations of Tenant under this Lease; (4) contain a separation of insured parties provision; (5) be primary, not contributing with, and not in excess of, coverage that Landlord may carry; and (6) provide coverage with no exclusion for a pollution incident arising from a hostile fire. All certificates of insurance for Tenant's Policies shall be delivered to Landlord prior to the Commencement Date and renewals thereof shall be delivered to Landlord's corporate and regional notice addresses at least 30 days after renewal of any such Tenant's Policy. In the event that Tenant fails, at any time or from time to time, to comply with the requirements of the preceding sentence and such failure continues for 5 business days after notice from Landlord to Tenant, Landlord may order such insurance and charge the cost thereof to Tenant, which amount shall be payable by Tenant to Landlord upon demand, as Additional Rent. Tenant shall give prompt notice to Landlord of any bodily injury, death, personal injury, advertising injury or property damage occurring in and about the Property.

Tenant shall purchase and maintain, throughout the Term, a Tenant's Policy(ies) of: (i) commercial general or excess liability insurance, including personal injury and property damage, in the amount of not less than $2,000,000.00 per occurrence, and $5,000,000.00 annual general aggregate, per location, (ii) comprehensive automobile liability insurance covering Tenant against any personal injuries or deaths of persons and property damage based upon or arising out of the ownership, use, occupancy or maintenance of a motor vehicle at the Premises and all areas appurtenant thereto in the amount of not less than $1,000,000, combined single limit; (iii) commercial property insurance (including reasonable business interruption limits) covering Tenant's Property (at its full replacement cost); (iv) workers' compensation insurance per the applicable statutes covering all employees of Tenant; and if Tenant handles, stores or utilizes Hazardous Substances in its business operations, (v) pollution legal liability insurance.

Section 8.05. Landlord's Insurance. During the Lease Term, Landlord shall maintain the following types of insurance, in the amounts specified below (the cost of which shall be included in Operating Expenses):

(a) a commercial property insurance policy covering the Building (at its full replacement cost), but excluding Tenant's personal property; (b) commercial general public liability insurance covering Landlord for claims arising out of liability for bodily injury, death, personal injury, advertising injury and property damage occurring in and about the Building and otherwise resulting from any acts and operations of Landlord, its agents and employees; and (c) any other insurance coverage which is reasonable for similarly situated properties. All of the coverages described in (a) through (d) shall be determined from time to time by Landlord, in its sole discretion. All insurance maintained by Landlord shall be in addition to and not in lieu of the insurance required to be maintained by the Tenant.

Section 8.06. Waiver of Subrogation. Notwithstanding anything to the contrary in this Lease, Landlord and Tenant mutually waive their respective rights of recovery against each other and each other's officers, directors, constituent partners, members, agents and employees, and Tenant further waives such rights against (a) each lessor under any ground or underlying lease encumbering the Building and (b) each lender under any mortgage or deed of trust or other lien encumbering the Building (or any portion thereof or interest therein), to the extent any loss is insured against or required to be insured against under this Lease, including, but not limited to, losses, deductibles or self-insured retentions covered by Landlord's or Tenant's commercial property, general liability, automobile liability or workers' compensation policies described above, This provision is intended to waive, fully and for the benefit of each party to this Lease, any and all rights and claims that might give rise to a right of subrogation by any insurance carrier. Each party shall cause its respective insurance policy(ies) to be endorsed to evidence compliance with such waiver.

ARTICLE 9 - CASUALTY

In the event of total or partial destruction of the Building or the Leased Premises by fire or other casualty, Landlord agrees promptly to restore and repair same; provided, however, Landlord's obligation hereunder with respect to the Leased Premises shall be limited to the reconstruction of such of the leasehold improvements as were originally required to be made by Landlord pursuant to Section 2.02 above, if any. Rent shall proportionately abate during the time that the Leased Premises or part thereof are unusable because of any such damage. Notwithstanding the foregoing, if the Leased Premises, Building or Common Areas are (a) so destroyed that they cannot be repaired or rebuilt within one hundred eighty (180) days from the casualty date; or (b) destroyed by a casualty that is not covered by the insurance required hereunder or, if covered, such insurance proceeds are not released by any mortgagee entitled thereto or are insufficient to rebuild the Building and the Leased Premises; then, Landlord shall so notify Tenant within thirty (30) days after the occurrence of the casualty and, in case of a clause (a) casualty, either Landlord or Tenant may, or, in the case of a clause (b) casualty, then Landlord may, upon thirty (30) days' written notice to the other party, terminate this Lease with respect to matters thereafter accruing. Tenant waives any right under applicable laws inconsistent with the terms of this paragraph.

ARTICLE 10 - EMINENT DOMAIN

If all or any substantial part of the Building or Common Areas shall be acquired by the exercise of eminent domain, Landlord may terminate this Lease by giving written notice to Tenant on or before the date possession thereof is so taken. If all or any part of the Leased Premises, Building or Common Areas shall be acquired by the exercise of eminent domain so that the Leased Premises shall become impractical for Tenant to use for the Permitted Use, Tenant may terminate this Lease by giving written notice to Landlord as of the date possession thereof is so taken. All damages awarded shall belong to Landlord; provided, however, that Tenant may claim dislocation damages if such amount is not subtracted from Landlord's award.

ARTICLE 11 - ASSIGNMENT AND SUBLEASE

Section 11.01. Assignment and Sublease.

(a) Tenant shall not assign this Lease or sublet the Leased Premises in whole or in part without Landlord's prior written consent. In the event of any permitted assignment or subletting, Tenant shall remain primarily liable hereunder, and any extension, expansion, rights of first offer, rights of first refusal or other options granted to Tenant under this Lease shall be rendered void and of no further force or effect. The acceptance of rent from any other person shall not be deemed to be a waiver of any of the provisions of this Lease or to be a consent to the assignment of this Lease or the subletting of the Leased Premises. Any assignment or sublease consented to by Landlord shall not relieve Tenant (or its assignee) from obtaining Landlord's consent to any subsequent assignment or sublease.

(b) By way of example and not limitation, Landlord shall be deemed to have reasonably withheld consent to a proposed assignment or sublease if in Landlord's opinion (i) the Leased Premises are or may be in any way adversely affected; (ii) the business reputation of the proposed assignee or subtenant is unacceptable; (iii) the financial worth of the proposed assignee or subtenant is insufficient to meet the obligations hereunder, or (iv) the prospective assignee or subtenant is a current tenant at the Park or is a bona-fide third-party prospective tenant. Landlord further expressly reserves the right to refuse to give its consent to any subletting if the proposed rent is publicly advertised to be less than the then current rent for similar premises in the Building. If Landlord refuses to give its consent to any proposed assignment or subletting, Landlord may, at its option, within thirty (30) days after receiving a request to consent, terminate this Lease by giving Tenant thirty (30) days' prior written notice of such termination, whereupon each party shall be released from all further obligations and liability hereunder, except those which expressly survive the termination of this Lease.

(c) If Tenant shall make any assignment or sublease, with Landlord's consent, for a rental in excess of the rent payable under this Lease, Tenant shall pay to Landlord fifty percent (50%) of any such excess rental upon receipt. Tenant agrees to pay Landlord $500.00 upon demand by Landlord for reasonable accounting and attorneys' fees incurred in conjunction with the processing and documentation of any requested assignment, subletting or any other hypothecation of this Lease or Tenant's interest in and to the Leased Premises as consideration for Landlord's consent.

Section 11.02. Permitted Transfer. Notwithstanding anything to the contrary contained in Section 11.01 above, Tenant shall have the right, without Landlord's consent, but upon ten (10) days' prior notice to Landlord, to (a) sublet all or part of the Leased Premises to any related corporation or other entity which controls Tenant, is controlled by Tenant or is under common control with Tenant; (b) assign all or any part of this Lease to any related corporation or other entity which controls Tenant, is controlled by Tenant, or is under common control with Tenant, or to a successor entity into which or with which Tenant is merged or consolidated or which acquires substantially all of Tenant's assets or property; or (c) effectuate any public offering of Tenant's stock on the NASDAQ Stock Market, provided that in the event of a transfer pursuant to clause (b), such successor entity assumes all of the obligations and liabilities of Tenant (any such entity hereinafter referred to as a "Permitted Transferee"). For the purpose of this Article 11 (i) "control" shall mean ownership of not less than fifty percent (50%) of all voting stock or legal and equitable interest in such corporation or entity. Any such transfer shall not relieve Tenant of its obligations under this Lease. Nothing in this paragraph is intended to nor shall permit Tenant to transfer its interest under this Lease as part of a fraud or subterfuge to intentionally avoid its obligations under this Lease (for example, transferring its interest to a shell corporation that subsequently files a bankruptcy), and any such transfer shall constitute a Default hereunder. Any change in control of Tenant resulting from a merger, consolidation, or a transfer of partnership or membership interests, a stock transfer, or any sale of substantially all of the assets of Tenant that do not meet the requirements of this Section 11.02 shall be deemed an assignment or transfer that requires Landlord's prior written consent pursuant to Section 11.01 above.

ARTICLE 12 - TRANSFERS BY LANDLORD

Section 12.01. Sale of the Building. Landlord shall have the right to sell the Building at any time during the Lease Term, subject only to the rights of Tenant hereunder; and such sale shall operate to release Landlord from liability hereunder for obligations accruing after the date of such conveyance.

Section 12.02. Estoppel Certificate. Within fifteen (15) days following receipt of a written request from Landlord, Tenant shall execute and deliver to Landlord, without cost to Landlord, an estoppel certificate in such form as Landlord may reasonably request certifying (a) that this Lease is in full force and effect and unmodified or stating the nature of any modification, (b) the date to which rent has been paid, (c) that there are not, to Tenant's knowledge, any uncured defaults or specifying such defaults if any are claimed, and (d) any other matters or state of facts reasonably required respecting the Lease. Such estoppel may be relied upon by Landlord and by any purchaser or mortgagee of the Building.

Section 12.03. Subordination. Landlord shall have the right to subordinate this Lease to the lien of any mortgage, deed to secure debt, deed of trust or other instrument in the nature thereof, and any amendments or modifications thereto (collectively, a "Mortgage") presently existing or hereafter encumbering the Building by so declaring in such Mortgage. Within fifteen (15) days following receipt of a written request from Landlord, Tenant shall execute and deliver to Landlord, without cost, any instrument that Landlord deems reasonably necessary or desirable to confirm the subordination of this Lease. Notwithstanding the foregoing, if the holder of the Mortgage shall take title to the Leased Premises through foreclosure or deed in lieu of foreclosure, Tenant shall be allowed to continue in possession of the Leased Premises as provided for in this Lease so long as Tenant is not in Default.

ARTICLE 13 - DEFAULT AND REMEDY

Section 13.01. Default. The occurrence of any of the following shall be a "Default":

(a) Tenant fails to pay any Monthly Rental Installments or Additional Rent within five (5) days after the same is due.

(b) Tenant fails to perform or observe any other term, condition, covenant or obligation required under this Lease for a period of thirty (30) days after written notice thereof from Landlord; provided, however, that if the nature of Tenant's default is such that more than thirty (30) days are reasonably required to cure, then such default shall be deemed to have been cured if Tenant commences such performance within said thirty (30) day period and thereafter diligently completes the required action within a reasonable time.

(c) Tenant shall vacate or abandon the Leased Premises, or fail to occupy the Leased Premises or any substantial portion thereof for a period of thirty (30) days.

(d) Tenant shall assign or sublet all or a portion of the Leased Premises in contravention of the provisions of Article 11 of this Lease.

(e) All or substantially all of Tenant's assets in the Leased Premises or Tenant's interest in this Lease are attached or levied under execution (and Tenant does not discharge the same within sixty (60) days thereafter); a petition in bankruptcy, insolvency or for reorganization or arrangement is filed by or against Tenant (and Tenant fails to secure a stay or discharge thereof within sixty (60) days thereafter); Tenant is insolvent and unable to pay its debts as they become due; Tenant makes a general assignment for the benefit of creditors; Tenant takes the benefit of any insolvency action or law; the appointment of a receiver or trustee in bankruptcy for Tenant or its assets if such receivership has not been vacated or set aside within thirty (30) days thereafter; or, dissolution or other termination of Tenant's corporate charter if Tenant is a corporation.

Section 13.02. Remedies. Upon the occurrence of any Default, Landlord shall have the following rights and remedies, in addition to those stated elsewhere in this Lease and those allowed by law or in equity, any one or more of which may be exercised without further notice to Tenant:

(a) Landlord may re-enter the Leased Premises and cure any Default of Tenant, and Tenant shall reimburse Landlord as Additional Rent for any costs and expenses which Landlord thereby incurs; and Landlord shall not be liable to Tenant for any loss or damage which Tenant may sustain by reason of Landlord's action.

(b) Without terminating this Lease, Landlord may terminate Tenant's right to possession of the Leased Premises, and thereafter, neither Tenant nor any person claiming under or through Tenant shall be entitled to possession of the Leased Premises, and Tenant shall immediately surrender the Leased Premises to Landlord, and Landlord may re-enter the Leased Premises and dispossess Tenant and any other occupants of the Leased Premises by any lawful means and may remove their effects, without prejudice to any other remedy that Landlord may have. Upon termination of possession, Landlord may (i) re-let all or any part thereof for a term different from that which would otherwise have constituted the balance of the Lease Term and for rent and on terms and conditions different from those contained herein, whereupon Tenant shall be immediately obligated to pay to Landlord an amount equal to the present value (discounted at the Prime Rate) of the difference between the rent provided for herein and that provided for in any lease covering a subsequent re-letting of the Leased Premises, for the period which would otherwise have constituted the balance of the Lease Term (the "Accelerated Rent Difference"), or (ii) without re-letting, declare the present value (discounted at the Prime Rate) of all rent which would have been due under this Lease for the balance of the Lease Term to be immediately due and payable as liquidated damages (the "Accelerated Rent"). Upon termination of possession, Tenant shall be obligated to pay to Landlord (A) the Accelerated Rent Difference or the Accelerated Rent, whichever is applicable, (B) all loss or damage that Landlord may sustain by reason of Tenant's Default ("Default Damages"), which shall include, without limitation, reasonable expenses of preparing the Leased Premises for re-letting, demolition, repairs, tenant finish improvements, brokers' commissions and attorneys' fees, and (C) all unpaid Minimum Annual Rent and Additional Rent that accrued prior to the date of termination of possession, plus any interest and late fees due hereunder (the "Prior Obligations").

(c) Landlord may terminate this Lease and declare the Accelerated Rent to be immediately due and payable, whereupon Tenant shall be obligated to pay to Landlord (i) the Accelerated Rent, (ii) all of Landlord's Default Damages, and (iii) all Prior Obligations. It is expressly agreed and understood that all of Tenant's liabilities and obligations set forth in this subsection (c) shall survive termination.

(d) Landlord and Tenant acknowledge and agree that the payment of the Accelerated Rent Difference or the Accelerated Rent as set above shall not be deemed a penalty, but merely shall constitute payment of liquidated damages, it being understood that actual damages to Landlord are extremely difficult, if not impossible, to ascertain. Neither the filing of a dispossessory proceeding nor an eviction of personalty in the Leased Premises shall be deemed to terminate the Lease.

(e) Landlord may sue for injunctive relief or to recover damages for any loss resulting from the Default.

(f) Notwithstanding anything to the contrary contained in this Lease, Landlord shall use commercially reasonable efforts to mitigate its damages in the event of a Default by Tenant as required by applicable law.

Section 13.03. Landlord's Default and Tenant's Remedies. Landlord shall be in default if it fails to perform any term, condition, covenant or obligation required under this Lease for a period of thirty (30) days after written notice thereof from Tenant to Landlord; provided, however, that if the term, condition, covenant or obligation to be performed by Landlord is such that it cannot reasonably be performed within thirty (30) days, such default shall be deemed to have been cured if Landlord commences such performance within said thirty-day period and thereafter diligently undertakes to complete the same within a reasonable period of time. Upon the occurrence of any such default, Tenant may sue for injunctive relief or to recover damages for any loss directly resulting from the breach, but Tenant shall not be entitled to terminate this Lease or withhold, offset or abate any sums due hereunder.

Section 13.04. Limitation of Landlord's Liability. If Landlord shall fail to perform any term, condition, covenant or obligation required to be performed by it under this Lease and if Tenant shall, as a consequence thereof, recover a money judgment against Landlord, Tenant agrees that it shall look solely to Landlord's right, title and interest in and to the Building for the collection of such judgment; and Tenant further agrees that no other assets of Landlord shall be subject to levy, execution or other process for the satisfaction of Tenant's judgment.

Section 13.05. Nonwaiver of Defaults. Neither party's failure or delay in exercising any of its rights or remedies or other provisions of this Lease shall constitute a waiver thereof or affect its right thereafter to exercise or enforce such right or remedy or other provision. No waiver of any default shall be deemed to be a waiver of any other default. Landlord's receipt of less than the full rent due shall not be construed to be other than a payment on account of rent then due, nor shall any statement on Tenant's check or any letter accompanying Tenant's check be deemed an accord and satisfaction. No act or omission by Landlord or its employees or agents during the Lease Term shall be deemed an acceptance of a surrender of the Leased Premises, and no agreement to accept such a surrender shall be valid unless in writing and signed by Landlord.

Section 13.06. Attorneys' Fees. If either party defaults in the performance or observance of any of the terms, conditions, covenants or obligations contained in this Lease and the non-defaulting party obtains a judgment against the defaulting party, then the defaulting party agrees to reimburse the non-defaulting party for reasonable attorneys' fees incurred in connection therewith. In addition, if a monetary Default shall occur and Landlord engages outside counsel to exercise its remedies hereunder, and then Tenant cures such monetary Default, Tenant shall pay to Landlord, on demand, all expenses incurred by Landlord as a result thereof, including reasonable attorneys' fees, court costs and expenses actually incurred.

ARTICLE 14 - LANDLORD'S RIGHT TO RELOCATE TENANT

Landlord shall have the right upon at least ninety (90) days' prior written notice to Tenant to relocate Tenant and to substitute for the Leased Premises other space in the Building that is acceptable to tenant or in another building owned by Landlord (or an affiliated entity of Landlord) so long as such other building is acceptable to Tenant and is within a one (1) mile radius of the Building and contains at least as much square footage as the Leased Premises. Landlord shall improve such substituted space, at its expense, with improvements at least equal in quantity and quality to those in the Leased Premises. Landlord shall reimburse Tenant for all reasonable third party expenses incurred in connection with, and caused by, such relocation. In no event shall Landlord be liable to Tenant for any consequential damages as a result of any such relocation, including, but not limited to, loss of business income or opportunity.

ARTICLE 15 - TENANT'S RESPONSIBILITY REGARDING ENVIRONMENTAL LAWS AND HAZARDOUS SUBSTANCES

Section 15.01. Environmental Definitions.

(a) "Environmental Laws" shall mean all present or future federal, state and municipal laws, ordinances, rules and regulations applicable to the environmental and ecological condition of the Leased Premises, and the rules and regulations of the Federal Environmental Protection Agency and any other federal, state or municipal agency or governmental board or entity having jurisdiction over the Leased Premises.

(b) "Hazardous Substances" shall mean those substances included within the definitions of "hazardous substances," "hazardous materials," "toxic substances" "solid waste" or "infectious waste" under Environmental Laws and petroleum products.

Section 15.02. Restrictions on Tenant. Tenant shall not cause or permit the use, generation, release, manufacture, refining, production, processing, storage or disposal of any Hazardous Substances on, under or about the Leased Premises, or the transportation to or from the Leased Premises of any Hazardous Substances, except as necessary and appropriate for its Permitted Use in which case the use, storage or disposal of such Hazardous Substances shall be performed in compliance with the Environmental Laws and the highest standards prevailing in the industry.

Section 15.03. Notices, Affidavits, Etc. Tenant shall immediately (a) notify Landlord of (i) any violation by Tenant, its employees, agents, representatives, customers, invitees or contractors of any Environmental Laws on, under or about the Leased Premises, or (ii) the presence or suspected presence of any Hazardous Substances on, under or about the Leased Premises, and (b) deliver to Landlord any notice received by Tenant relating to (a)(i) and (a)(ii) above from any source. Tenant shall execute affidavits, representations and the like within ten (10) days of Landlord's written request therefor concerning Tenant's best knowledge and belief regarding the presence of any Hazardous Substances on, under or about the Leased Premises.

Section 15.04. Tenant's Indemnification. Tenant shall indemnify Landlord and Landlord's managing agent from any and all claims, losses, liabilities, costs, expenses and damages, including attorneys' fees, costs of testing and remediation costs, incurred by Landlord in connection with any breach by Tenant of its obligations under this Article 15. The covenants and obligations under this Article 15 shall survive the expiration or earlier termination of this Lease.

Section 15.05. Existing Conditions. Notwithstanding anything contained in this Article 15 to the contrary, Tenant shall not have any liability to Landlord under this Article 15 resulting from any conditions existing, or events occurring, or any Hazardous Substances existing or generated, at, in, on, under or in connection with the Leased Premises prior to the Commencement Date of this Lease (or any earlier occupancy of the Leased Premises by Tenant) or if caused by any party other than Tenant except to the extent Tenant exacerbates the same.

ARTICLE 16 - MISCELLANEOUS

Section 16.01. Benefit of Landlord and Tenant. This Lease shall inure to the benefit of and be binding upon Landlord and Tenant and their respective successors and assigns.

Section 16.02. Governing Law. This Lease shall be governed in accordance with the laws of the State where the Building is located.

Section 16.03. Force Majeure. Landlord and Tenant (except with respect to the payment of any monetary obligation) shall be excused for the period of any delay in the performance of any obligation hereunder when such delay is occasioned by causes beyond its control, including but not limited to work stoppages, boycotts, slowdowns or strikes; shortages of materials, equipment, labor or energy; unusual weather conditions; or acts or omissions of governmental or political bodies.

Section 16.04. Examination of Lease. Submission of this instrument by Landlord to Tenant for examination or signature does not constitute an offer by Landlord to lease the Leased Premises. This Lease shall become effective, if at all, only upon the execution by and delivery to both Landlord and Tenant. Execution and delivery of this Lease by Tenant to Landlord constitutes an offer to lease the Leased Premises on the terms contained herein.

Section 16.05. Indemnification for Leasing Commissions. The parties hereby represent and warrant that the only real estate brokers involved in the negotiation and execution of this Lease are the Brokers and that no other party is entitled, as a result of the actions of the respective party, to a commission or other fee resulting from the execution of this Lease. Each party shall indemnify the other from any and all liability for the breach of this representation and warranty on its part and shall pay any compensation to any other broker or person who may be entitled thereto. Landlord shall pay any commissions due Brokers based on this Lease pursuant to separate agreements between Landlord and Brokers.

Section 16.06. Notices. Any notice required or permitted to be given under this Lease or by law shall be deemed to have been given if it is written and delivered in person or by overnight courier or mailed by certified mail, postage prepaid, to the party who is to receive such notice at the address specified in Section 1.01(l). If sent by overnight courier, the notice shall be deemed to have been given one (1) day after sending. If mailed, the notice shall be deemed to have been given on the date that is three (3) business days following mailing. Either party may change its address by giving written notice thereof to the other party.

Section 16.07. Partial Invalidity; Complete Agreement. If any provision of this Lease shall be held to be invalid, void or unenforceable, the remaining provisions shall remain in full force and effect. This Lease represents the entire agreement between Landlord and Tenant covering everything agreed upon or understood in this transaction. There are no oral promises, conditions, representations, understandings, interpretations or terms of any kind as conditions or inducements to the execution hereof or in effect between the parties. No change or addition shall be made to this Lease except by a written agreement executed by Landlord and Tenant.

Section 16.08. Financial Information. From time to time during the Lease Term, Tenant shall deliver to Landlord information and documentation describing and concerning Tenant's financial condition, and in form and substance reasonably acceptable to Landlord, within twenty (20) days following Landlord's written request therefor. Upon Landlord's request, Tenant shall provide to Landlord the most currently available audited financial statement of Tenant; and if no such audited financial statement is available, then Tenant shall instead deliver to Landlord its most currently available balance sheet and income statement. Furthermore, upon the delivery of any such financial information from time to time during the Lease Term, Tenant shall be deemed to automatically represent and warrant to Landlord that the financial information delivered to Landlord is true, accurate and complete in all material respect, and that except as explained by Tenant to Landlord in writing, there has been no material and adverse change in the financial condition of Tenant since the date of the then-applicable financial information.

Section 16.09. Waiver of Jury Trial. THE LANDLORD AND THE TENANT, TO THE FULLEST EXTENT THAT THEY MAY LAWFULLY DO SO, HEREBY WAIVE TRIAL BY JURY IN ANY ACTION OR PROCEEDING BROUGHT BY ANY PARTY TO THIS LEASE WITH RESPECT TO THIS LEASE, THE LEASED PREMISES, OR ANY OTHER MATTER RELATED TO THIS LEASE OR THE LEASED PREMISES.

Section 16.10. Representations and Warranties.

(a) Tenant hereby represents and warrants that (i) Tenant is duly organized, validly existing and in good standing (if applicable) in accordance with the laws of the State under which it was organized; (ii) Tenant is authorized to do business in the State where the Building is located; and (iii) the individual(s) executing and delivering this Lease on behalf of Tenant has been properly authorized to do so, and such execution and delivery shall bind Tenant to its terms.

(b) Landlord hereby represents and warrants that (i) Landlord is duly organized, validly existing and in good standing (if applicable) in accordance with the laws of the State under which it was organized; (ii) Landlord is authorized to do business in the State where the Building is located; and (iii) the individual(s) executing and delivering this Lease on behalf of Landlord has been properly authorized to do so, and such execution and delivery shall bind Landlord to its terms.

Section 16.11. Signage. Tenant may, at its own expense, erect a sign concerning the business of Tenant that shall be in keeping with the decor and other signs on the Building. All signage (including the signage described in the preceding sentence) in or about the Leased Premises shall be first approved by Landlord and shall be in compliance with the any codes and recorded restrictions applicable to the sign or the Building. The location, size and style of all signs shall be approved by Landlord. Tenant agrees to maintain any sign in good state of repair, and upon expiration of the Lease Term, Tenant agrees to promptly remove such signs and repair any damage to the Leased Premises.

Section 16.12. Parking. Tenant shall be entitled to the non-exclusive use of the parking spaces designated for the Building by Landlord. Tenant agrees not to overburden the parking facilities and agrees to cooperate with Landlord and other tenants in the use of the parking facilities. Landlord reserves the right in its absolute discretion to determine whether parking facilities are becoming crowded and, in such event, to allocate parking spaces between Tenant and other tenants. There will be no assigned parking unless Landlord, in its sole discretion, deems such assigned parking advisable. No vehicle may be repaired or serviced in the parking area and any vehicle brought into the parking area by Tenant, or any of Tenant's employees, contractors or invitees, and deemed abandoned by Landlord will be towed and all costs thereof shall be borne by the Tenant. All driveways, ingress and egress, and all parking spaces are for the joint use of all tenants. There shall be no parking permitted on any of the streets or roadways located within the Park. In addition, Tenant agrees that its employees will not park in the spaces designated visitor parking.

Section 16.13. Consent. Where the consent of a party is required, such consent will not be unreasonably withheld.

Section 16.14. Time. Time is of the essence of each term and provision of this Lease.

Section 16.15. Tenant's Trade Fixtures. Landlord acknowledges and agrees that Tenant has or will be installing certain signs, furnishings, fixtures, equipment, and other personal property in the Leased Premises ("Tenant's Trade Fixtures"). Landlord further acknowledges and agrees that Tenant's Trade Fixtures are and will remain the personal property of Tenant which may be removed from the Leased Premises at any time by Tenant, and that Tenant's Trade Fixtures shall not be subject to any landlord's lien or other lien or security interest against the Leased Premises or the Building.

(SIGNATURES CONTAINED ON FOLLOWING PAGE)

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the day and year first above written.

LANDLORD:

FirstCal Industrial 2 Acquisition, LLC,
a Delaware limited liability company

By: FirstCal 2 Industrial Leasing Manager, LLC, a Delaware limited liability company and its leasing manager

By: First Industrial, L.P., a Delaware limited partnership, its sole member

By: First Industrial Realty Trust, Inc., a Maryland corporation and its sole general partner

By:________________________
Name:______________________
Title:_____________________

TENANT:

Universal Electronics Inc., a Delaware corporation

By: ____

Name: ____

Title: ____

STATE OF OHIO

COUNTY OF _________

Before me, the undersigned, a Notary Public for _______________ County, personally appeared __________________________, of First Industrial Realty Trust, Inc., the Landlord in the foregoing instrument who acknowledged the signing of the foregoing instrument to be his free act and deed on behalf of the Landlord for the uses and purpose set forth therein.

IN WITNESS WHEREOF, I have hereunto signed my name and affixed my official seal on the _______ day of __________________,

____
Notary Public

____
Type or Print Name

STATE OF __________________________

COUNTY OF ________________________

Before me, the undersigned, a Notary Public for _________________________ County, personally appeared _____________________, the _________________________ of Universal Electronics Inc., the Tenant in the foregoing instrument who acknowledged the signing of the foregoing instrument to be his free act and deed on behalf of the Tenant for the uses and purpose set forth therein.

IN WITNESS WHEREOF, I have hereunto signed my name and affixed my official seal on the _______ day of __________________,

____
Notary Public

____
Type or Print Name

EXHIBIT A

LEASED PREMISES

[FLOOR PLAN]

EXHIBIT A-1

THE DOWNSIZE PORTION

[FLOOR PLAN]

EXHIBIT A-2

LEASED PREMISES AFTER THE DOWNSIZE DATE
(If Downsize Option is properly exercised)

[FLOOR PLAN]

EXHIBIT B

TENANT IMPROVEMENTS

1. Landlord's Obligations. Tenant has personally inspected the Leased Premises and accepts the same "AS IS" without representation or warranty by Landlord of any kind and with the understanding that Landlord shall have no responsibility with respect thereto except to construct and install within the Leased Premises, lien-free, in a good and workmanlike manner, in accordance with the Construction Drawings, and in compliance with all applicable laws, codes, rules and regulations, the Tenant Improvements, in accordance with this EXHIBIT B.

2. Construction Drawings and the Tenant Amount. Attached hereto as EXHIBIT B-1 is the construction drawing which has been approved by the Tenant. Landlord shall make modifications to the first floor of the premises in accordance with EXHIBIT B-1 (the "Construction Drawings"). Tenant shall be responsible for the cost to construct and install the Tenant Improvements not to exceed One Hundred Thirteen Thousand and No/100 Dollars ($113,000.00) (the "Tenant Amount"); provided, however, the Tenant Amount shall not include any increases resulting from any Change Orders (as hereinafter defined) initiated by Tenant. Tenant shall pay to Landlord an amount equal to one-half (1/2) of the Tenant Amount within ten (10) days following Landlord's written request therefor. Following Substantial Completion of the Tenant Improvements, Tenant shall pay to Landlord the remaining difference between the unpaid portion of the Tenant Amount (together with any increases resulting from any Change Orders initiated by Tenant as set forth in paragraph 4 below) and the amount previously received by Landlord from Tenant within ten (10) days of Landlord's request therefor. Tenant's failure to deliver the payments required in this paragraph shall entitle Landlord to stop construction and installation of the Tenant Improvements until such payment is received, and any resulting delay shall constitute a Tenant Delay (as hereinafter defined) hereunder. In addition, all delinquent payments shall accrue interest at 15% per annum.

3. Schedule and Early Occupancy. Landlord shall provide Tenant with a proposed schedule for the construction and installation of the Tenant Improvements and shall notify Tenant of any material changes to said schedule. Tenant agrees to coordinate with Landlord regarding the installation of Tenant's phone and data wiring and any other trade related fixtures that will need to be installed in the Leased Premises prior to Substantial Completion. In addition, if and to the extent permitted by applicable laws, rules and ordinances, Tenant shall have the right to enter the Leased Premises for thirty (30) days prior to the scheduled date for Substantial Completion (as may be modified from time to time) in order to install fixtures (such as workstations) and otherwise prepare the Leased Premises for occupancy, which right shall expressly exclude making any structural modifications. During any entry prior to the Commencement Date (a) Tenant shall comply with all terms and conditions of this Lease other than the obligation to pay rent, (b) Tenant shall not interfere with Landlord's completion of the Tenant Improvements, (c) Tenant shall cause its personnel and contractors to comply with the terms and conditions of Landlord's rules of conduct (which Landlord agrees to furnish to Tenant upon request), and (d) Tenant shall not begin operation of its business. Tenant acknowledges that Tenant shall be responsible for obtaining all applicable permits and inspections relating to any such entry by Tenant.

4. Change Orders. Tenant shall have the right to request changes to the Construction Drawings at any time following the date hereof by way of written change order (each, a "Change Order", and collectively, "Change Orders"). Provided such Change Order is reasonably acceptable to Landlord, Landlord shall prepare and submit promptly to Tenant a memorandum setting forth the impact on cost and schedule resulting from said Change Order (the "Change Order Memorandum of Agreement"). Tenant shall, within three (3) days following Tenant's receipt of the Change Order Memorandum of Agreement,

either (a) execute and return the Change Order Memorandum of Agreement to Landlord, or (b) retract its request for the Change Order. At Landlord's option, Tenant shall pay to Landlord (or Landlord's designee), within ten (10) days following Landlord's request, any increase in the cost to construct the Tenant Improvements resulting from the Change Order, as set forth in the Change Order Memorandum of Agreement. Landlord shall not be obligated to commence any work set forth in a Change Order until such time as Tenant has delivered to Landlord the Change Order Memorandum of Agreement executed by Tenant and, if applicable, Tenant has paid Landlord in full for said Change Order.

5. Tenant Delay. Notwithstanding anything to the contrary contained in the Lease, if Substantial Completion of the Tenant Improvements is delayed beyond the Target Commencement Date solely as a result of Tenant Delay (as hereinafter defined), then, for purposes of determining the Commencement Date, Substantial Completion of the Tenant Improvements shall be deemed to have occurred on the date that Substantial Completion of the Tenant Improvements would have occurred but for such Tenant Delay. Without limiting the foregoing, Landlord shall use commercially reasonable speed and diligence to Substantially Complete the Tenant Improvements on or before the Target Commencement Date.

6. Letter of Understanding. Promptly following the Commencement Date, Tenant shall execute Landlord's Letter of Understanding in substantially the form attached hereto as EXHIBIT C and made a part hereof, acknowledging (a) the Commencement Date of this Lease, and (b) except for any punchlist items, that Tenant has accepted the Leased Premises. If Tenant takes possession of and occupies the Leased Premises, Tenant shall be deemed to have accepted the Leased Premises and that the condition of the Leased Premises and the Building was at the time satisfactory and in conformity with the provisions of this Lease in all respects, subject to any punchlist items.

7. Definitions. For purposes of this Lease (a) "Substantial Completion" (or any grammatical variation thereof) shall mean completion of construction of the Tenant Improvements, subject only to punchlist items to be identified by Landlord and Tenant in a joint inspection of the Leased Premises prior to Tenant's occupancy, in accordance with the Construction Drawings and as established by a certificate of occupancy for the Leased Premises or other similar authorization issued by the appropriate governmental authority, if required, and (b) "Tenant Delay" shall mean any delay in the completion of the Tenant Improvements attributable to Tenant, including, without limitation: (i) Tenant's failure to meet any time deadlines specified herein, (ii) Change Orders, (iii) the performance of any other work in the Leased Premises by any person, firm or corporation employed by or on behalf of Tenant, or any failure to complete or delay in completion of such work, (iv) Landlord's inability to obtain an occupancy permit for the Leased Premises because of the need for completion of all or a portion of improvements being installed in the Leased Premises directly by Tenant, and (v) any other act or omission of Tenant.

EXHIBIT B-1

CONSTRUCTION DRAWING

EXHIBIT C

LETTER OF UNDERSTANDING

____
Attention: ______________________, Property Manager
____
____

RE: Lease Agreement between _________________________ ("Landlord") and ____ ("Tenant") for the Leased Premises located at ______________________________, _________________, __________ (the "Leased Premises"), dated ________________ (the "Lease").

Dear _________________________:

The undersigned, on behalf of Tenant, certifies to Landlord as follows:

1. The Commencement Date under the Lease is ____________________.

2. The rent commencement date is ___________________.

3. The expiration date of the Lease is ___________________.

4. The Lease (including amendments, if any) is the entire agreement between Landlord and Tenant as to the leasing of the Leased Premises and is in full force and effect.

5. The Landlord has completed the improvements designated as Landlord's obligation under the Lease (excluding punchlist items as agreed upon by Landlord and Tenant), if any, and Tenant has accepted the Leased Premises as of the Commencement Date.

6. To the best of the undersigned's knowledge, there are no uncured events of default by either Tenant or Landlord under the Lease.

IN WITNESS WHEREOF, the undersigned has caused this Letter of Understanding to be executed this ____ day of _________________, 20____.

____

By: ____

Printed Name: ____

Title: ____

EXHIBIT D

Intentionally Omitted

EXHIBIT E

RULES AND REGULATIONS

1. The sidewalks, entrances, driveways and roadways serving and adjacent to the Leased Premises shall not be obstructed or used for any purpose other than ingress and egress. Landlord shall control the Common Areas.

2. No awnings or other projections shall be attached to the outside walls of the Building. No curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Leased Premises other than Landlord standard window coverings without Landlord's prior written approval. All electric ceiling fixtures hung in offices or spaces along the perimeter of the Building must be fluorescent, of a quality, type, design and tube color approved by Landlord. Neither the interior nor the exterior of any windows shall be coated or otherwise sunscreened without written consent of Landlord.

3. No sign, advertisement, notice or handbill shall be exhibited, distributed, painted or affixed by any tenant on, about or from any part of the Leased Premises, the Building or in the Common Areas including the parking area without the prior written consent of Landlord. In the event of the violation of the foregoing by any tenant, Landlord may remove or stop same without any liability, and may charge the expense incurred in such removal or stopping to tenant.

4. The sinks and toilets and other plumbing fixtures shall not be used for any purpose other than those for which they were constructed, and no sweepings, rubbish, rags, or other substances shall be thrown therein. All damages resulting from any misuse of the fixtures shall be borne by the tenant who, or whose subtenants, assignees or any of their servants, employees, agents, visitors or licensees shall have caused the same.

5. No boring, cutting or stringing of wires or laying of any floor coverings shall be permitted, except with the prior written consent of the Landlord and as the Landlord may direct. Landlord shall direct electricians as to where and how telephone or data cabling are to be introduced. The location of telephones, call boxes and other office equipment affixed to the Leased Premises shall be subject to the approval of Landlord.

6. No bicycles, vehicles, birds or animals of any kind (except seeing eye dogs) shall be brought into or kept in or about the Leased Premises, and no cooking shall be done or permitted by any tenant on the Leased Premises, except microwave cooking, and the preparation of coffee, tea, hot chocolate and similar items for tenants and their employees. No tenant shall cause or permit any unusual or objectionable odors to be produced in or permeate from the Leased Premises.

7. The Leased Premises shall not be used for manufacturing, unless such use conforms to the zoning applicable to the area, and the Landlord provides written consent. No tenant shall occupy or permit any portion of the Leased Premises to be occupied as an office for the manufacture or sale of liquor, narcotics, or tobacco in any form, or as a medical office, or as a barber or manicure shop, or a dance, exercise or music studio, or any type of school or daycare or copy, photographic or print shop or an employment bureau without the express written consent of Landlord. The Leased Premises shall not be used for lodging or sleeping or for any immoral or illegal purpose.

8. No tenant shall make, or permit to be made any unseemly, excessive or disturbing noises or disturb or interfere with occupants of this or neighboring buildings or premises or those having business with

them, whether by the use of any musical instrument, radio, phonograph, unusual noise, or in any other way. No tenant shall throw anything out of doors, windows or down the passageways.

9. No tenant, subtenant or assignee nor any of its servants, employees, agents, visitors or licensees, shall at any time bring or keep upon the Leased Premises any flammable, combustible or explosive fluid, chemical or substance or firearm.

10. No additional locks or bolts of any kind shall be placed upon any of the doors or windows by any tenant, nor shall any changes be made to existing locks or the mechanism thereof. Each tenant must upon the termination of his tenancy, restore to the Landlord all keys of doors, offices, and toilet rooms, either furnished to, or otherwise procured by, such tenant and in the event of the loss of keys so furnished, such tenant shall pay to the Landlord the cost of replacing the same or of changing the lock or locks opened by such lost key if Landlord shall deem it necessary to make such changes.

11. No tenant shall overload the floors of the Leased Premises. All damage to the floor, structure or foundation of the Building due to improper positioning or storage items or materials shall be repaired by Landlord at the sole cost and expense of tenant, who shall reimburse Landlord immediately therefor upon demand.

12. Each tenant shall be responsible for all persons entering the Building at tenant's invitation, express or implied. Landlord shall in no case be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. In case of an invasion, mob riot, public excitement or other circumstances rendering such action advisable in Landlord's opinion, Landlord reserves the right without any abatement of rent to require all persons to vacate the Building and to prevent access to the Building during the continuance of the same for the safety of the tenants and the protection of the Building and the property in the Building.

13. Canvassing, soliciting and peddling in the Building are prohibited, and each tenant shall report and otherwise cooperate to prevent the same.

14. All equipment of any electrical or mechanical nature shall be placed by tenant in the Leased Premises in settings that will, to the maximum extent possible, absorb or prevent any vibration, noise and annoyance.

15. There shall not be used in any space, either by any tenant or others, any hand trucks except those equipped with rubber tires and rubber side guards.

16. The scheduling of tenant move-ins shall be before or after normal business hours and on weekends, subject to the reasonable discretion of Landlord.

17. The Building is a smoke-free Building. Smoking is strictly prohibited within the Building. Smoking shall only be allowed in areas designated as a smoking area by Landlord. Tenant and its employees, representatives, contractors or invitees shall not smoke within the Building or throw cigar or cigarette butts or other substances or litter of any kind in or about the Building, except in receptacles for that purpose. Landlord may, at its sole discretion, impose a charge against monthly rent of $50.00 per violation by tenant or any of its employees, representatives, contractors or invitees, of this smoking policy.

18. Tenants will insure that all doors are securely locked, and water faucets, electric lights and electric machinery are turned off before leaving the Building.

19 Tenant, its employees, customers, invitees and guests shall, when using the parking facilities in and around the Building, observe and obey all signs regarding fire lanes and no-parking and driving speed zones and designated handicapped and visitor spaces, and when parking always park between the designated lines. Landlord reserves the right to tow away, at the expense of the owner, any vehicle which is improperly parked or parked in a no-parking zone or in a designated handicapped area, and any vehicle which is left in any parking lot in violation of the foregoing regulation. All vehicles shall be parked at the sole risk of the owner, and Landlord assumes no responsibility for any damage to or loss of vehicles.

20. Tenant shall be responsible for and cause the proper disposal of medical waste, including hypodermic needles, created by its employees.

21. No outside storage is permitted including without limitation the storage of trucks and other vehicles.

22. No tenant shall be allowed to conduct an auction from the Leased Premises without the prior written consent of Landlord.

It is Landlord's desire to maintain in the Building and Common Areas the highest standard of dignity and good taste consistent with comfort and convenience for tenants. Any action or condition not meeting this high standard should be reported directly to Landlord. The Landlord reserves the right to make such other and further rules and regulations as in its judgment may from time to time be necessary for the safety, care and cleanliness of the Building and Common Areas, and for the preservation of good order therein.

EXHIBIT F

TENANT OPERATIONS INQUIRY FORM

1. Name of Company/Contact____

2. ADDRESS/PHONE____

____

3. Provide a brief description of your business and operations: _____________

____

____

____

____

____

4. Will you be required to make filings and notices or obtain permits as required by Federal and/or State regulations for the operations at the proposed facility? Specifically:

a. SARA Title III Section 312 (Tier II) reports YES NO
(> 10,000lbs. of hazardous materials STORED at any one time)

b. SARA Title III Section 313 (Tier III) Form R reports YES NO
(> 10,000lbs. of hazardous materials USED per year)

c. NPDES or SPDES Stormwater Discharge permit YES NO
(answer "No" if "No-Exposure Certification" filed)

d. EPA Hazardous Waste Generator ID Number YES NO

5. Provide a list of chemicals and wastes that will be used and/or generated at the proposed location. Routine office and cleaning supplies are not included. Make additional copies if required.

CHEMICAL/WASTE	APPROXIMATE ANNUAL QUANTITY USED OR GENERATED	STORAGE CONTAINER(S) (I.E. DRUMS, CARTONS, TOTES, BAGS, ASTS, USTS, ETC)

LEASE ADDENDUM A

DOWNSIZE OPTION

DOWNSIZE OPTION. Subject to the terms and conditions contained herein, Tenant shall have a one-time option (the "Downsize Option") to downsize the Leased Premises and remove that certain portion of the Leased Premises containing approximately 13,000 square feet and depicted on EXHIBIT A-1 attached hereto (the "Downsize Portion"). If the Downsize Option is properly exercised by Tenant pursuant to the terms of this Lease Addendum A, then as of March 31, 2009 (the "Downsize Date"), the Downsize Portion shall no longer be considered a part of the Leased Premises, such that, from and after the Downsize Date, the "Leased Premises," for all purposes under this Lease, shall consist of only that approximately 8,509 square feet depicted on EXHIBIT A-2 attached hereto. If Tenant desires to exercise the Downsize Option, Tenant shall give Landlord written notice ("Downsize Notice") of Tenant's exercise of this Downsize Option together with a downsize fee in the amount of $45,000 (the "Downsize Fee"), which Downsize Notice and Downsize Fee must be delivered by Tenant to Landlord no later than the date that is six (6) full months prior to the Downsize Date. Landlord estimates that the Additional Downsize Fee as of the Downsize Date shall be $108,163.00. Within forty-five (45) days after the Commencement Date, Landlord shall provide Tenant with written notice of the actual amount of the Additional Downsize Fee. Upon receipt of the Downsize Notice and Downsize Fee by Landlord, Landlord shall provide Tenant with a statement (a "Statement") setting forth the amount of any unamortized leasing commissions and unamortized Tenant Improvements costs relating to this Lease (collectively, the "Additional Downsize Fee"). Tenant shall pay the Additional Downsize Fee to Landlord within thirty (30) days after Tenant's receipt of the Statement. Upon receipt of the Downsize Notice and Downsize Fee, Landlord shall have the right to enter the Leased Premises to market the Leased Premises to prospective tenants. If Tenant delivers the Downsize Notice, the Downsize Fee and the Additional Downsize Fee and otherwise complies with all the provisions in this Lease Addendum A, then the Downsize Portion shall no longer be considered part the Leased Premises as of 11:59 p.m. on the Downsize Date and Tenant shall vacate the Downsize Portion in accordance with the terms of this Lease, including without limitation with Sections 2.03 and 2.04 of this Lease, on or prior to the Downsize Date. If Tenant shall fail to deliver possession of the Downsize Portion on or before the Downsize Date in accordance with the terms hereof, Tenant shall be deemed to be in Default under this Lease and a holdover tenant with respect to the Downsize Portion from and after the Downsize Date, and in such event, Tenant shall be liable to Landlord for payments for the use and occupancy of the Downsize Portion equal to the fair market value thereof, and shall also be liable to Landlord for all costs and expenses incurred by Landlord in securing possession of the Downsize Portion. Landlord may accept any such sums from Tenant without prejudice to Landlord's right to evict Tenant from the Downsize Portion by any lawful means. If this Lease has been assigned or all or a portion of the Leased Premises has been sublet or if Tenant is in Default, this Downsize Option shall be deemed null and void and neither Tenant nor any assignee or subtenant shall have the right to exercise such option during the term of such assignment or sublease.

Notwithstanding anything contained in this Lease to the contrary, if Tenant properly exercises the Downsize Option pursuant to this Lease Addendum A, from and after the Downsize Date, Sections 1.01 (b), (c), (d) and (e) shall automatically be amended and modified as follows:

"(c) Tenant's Proportionate Share: 12.87%.

(d) Minimum Annual Rent: $39,907.20 per annum

(e) Monthly Rental Installments: $3,325.60 per month

The foregoing shall be evidenced by an amendment to this Lease.

Lease Addendum A

Lease Addendum B
Renewal Option

RENEWAL OPTION. Provided Tenant is not in default under this Lease at the time the option to renew described below (the "Renewal Option") is exercised or at the commencement of the applicable Renewal Period (hereinafter defined), Tenant shall have one (1) option to extend the Lease Term for a successive three (3) year period (the "Renewal Period") commencing on the first day following the last day of the Lease Term, upon the same terms and conditions as are contained in this Lease, except as hereinafter provided. The Minimum Annual Rent for each Renewal Period shall be equal to the then "fair market rent" (as determined by an appraiser selected by Landlord) for similarly used and comparable space in the Twinsburg, Ohio area for a similar term (the "Renewal Rate"), provided that in no event shall the Minimum Annual Rent for a Renewal Period be less than the Minimum Annual Rent in effect for the period immediately prior to the commencement of the applicable Renewal Period. Landlord shall notify Tenant in writing (the "Renewal Rate Notice") of the Renewal Rate within thirty (30) days of Tenant's delivery of a Renewal Notice (hereinafter defined). Tenant shall have no further or additional right to extend the Lease Term. The Renewal Option shall be exercised, if at all, by written notice from Tenant to Landlord (the "Renewal Notice") given no earlier than twelve (12) months and no later than nine (9) months prior to the expiration of the Lease Term. Notwithstanding anything contained herein to the contrary, in the event Tenant does not wish to exercise the Renewal Option at the Renewal Rate, Tenant may withdraw its Renewal Notice by written notice to Landlord given no later than five (5) business days from the date Landlord delivers the Renewal Rate Notice.

EXHIBIT 10.27

AMENDMENT NUMBER ONE
TO
CREDIT AGREEMENT

THIS AMENDMENT NUMBER ONE TO CREDIT AGREEMENT ("Amendment"), is entered into as of August 29th, 2006, by and between COMERICA BANK ("Bank") and UNIVERSAL ELECTRONICS INC., a Delaware corporation ("Borrower"), in light of the following:

A. Borrower and Bank have previously entered into that certain Credit Agreement, dated as of September 15, 2003, as amended (the "Agreement").

B. Borrower and Bank desire to amend the Agreement as provided for and on the conditions set forth herein.

NOW, THEREFORE, Borrower and Bank hereby amend and supplement provisions of the Agreement as follows:

1. DEFINITIONS. All initially capitalized terms used in this Amendment shall have the meanings given to them in the Agreement unless otherwise defined herein,

2. AMENDMENTS.

(a) The definition of "Applicable Unused Revolving Commitment Fee Percentage" in Section 1.1 of the Agreement is hereby amended to read as follows:

> "Applicable Unused Revolving Commitment Fee Percentage" means the percentage set forth in the table below opposite the average daily collected deposits of Borrower maintained at Bank for the prior fiscal quarter:

AVERAGE DAILY COLLECTED DEPOSITS OF BORROWER MAINTAINED AT BANK	APPLICABLE UNUSED REVOLVING COMMITMENT FEE PERCENTAGE
Greater than $5,000,000	0.000%
Equal to or greater than $2,000,000 and less than or equal to $5,000,000	0.125%
Less than $2,000,000	0.250%

(b) The definition of "Revolving Loans Maturity Date" in Section 1.1 of the Agreement is hereby amended to read as follows:

"Revolving Loans Maturity Date" means August 31, 2009.

(c) Section 7.10(c) of the Agreement is hereby amended to read as follows:

(c) Notwithstanding Section 7.10(a), Borrower may redeem or purchase on the open market, at any time from August 31, 2006 through the term of this Agreement, up to 2,000,000 shares of its outstanding Common Stock in addition to any such shares previously purchased.

(d) Section 7.15(a) of the Agreement is hereby amended to read as follows:

(a) Consolidated Effective Tangible Net Worth, measured as of the end of each fiscal quarter, at any time to be less than the sum, increased each year on an aggregate basis, of $66,000,000 plus, as of the end of each of Borrower's fiscal years, 25% of Consolidated Net Income for such fiscal year.

(e) Section 10.12 of the Agreement is hereby amended to add thereto the following new subsection (d):

(d) Judicial Reference Provision.

(a) In the event the jury trial waiver set forth above in Section 10.12(c) is not enforceable, the parties elect to proceed under this Judicial Reference Provision.

(b) With the exception of the items specified in clause (c), below, any controversy, dispute or claim (each, a "Claim") between the parties arising out of or relating to this Agreement or any other document, instrument or agreement between the undersigned parties (collectively in this Section 10.12(d), the "Comerica Documents"), will be resolved by a reference proceeding in California in accordance with the provisions of Sections 638 et seq. of the California Code of Civil Procedure ("CCP"), or their successor sections, which shall constitute the exclusive remedy for the resolution of any Claim, including whether the Claim is subject to the reference proceeding. Except as otherwise provided in the Comerica Documents, venue for the reference proceeding will be in the state or federal court in the county or district where the real property involved in the action, if any, is located or in the state or federal court in the county or district where venue is otherwise appropriate under applicable law (the "Court").

(c) The matters that shall not be subject to a reference are the following: (i) nonjudicial foreclosure of any security interests in real or personal property, (ii) exercise of self-help remedies (including, without limitation, set-off), (iii) appointment of a receiver and (iv) temporary, provisional or ancillary remedies (including, without limitation, writs of attachment, writs of possession, temporary restraining orders or preliminary injunctions). This reference provision does not limit the right of any party to exercise or oppose any of the rights and remedies described in clauses (i) and (ii) or to seek or oppose from a court of competent jurisdiction any of the items described in clauses (iii) and (iv). The exercise of, or opposition to, any of those items does not waive the right of any party to a reference pursuant to this reference provision as provided herein.

(d) The referee shall be a retired judge or justice selected by mutual written agreement of the parties. If the parties do not agree within ten (10) days of a written request to do so by any party, then, upon request of any party, the referee shall be selected by the Presiding Judge of the Court (or his or her representative). A request for appointment of a referee may be heard on an ex parte or expedited basis, and the parties agree that irreparable harm would result if ex parte relief is not granted Pursuant to CCP Section 170.6, each party shall have one peremptory challenge to the referee selected by the Presiding Judge of the Court (or his or her representative).

(e) The parties agree that time is of the essence in conducting the reference proceedings. Accordingly, the referee shall be requested, subject to change in the time periods specified herein for good cause shown, to (i) set the matter for a status and trial-setting conference within fifteen (15) days after the date of selection of the referee, (ii) if practicable, try all issues of law or fact within one hundred twenty (120) days after the date of the conference and (iii) report a statement of decision within twenty (20) days after the matter has been submitted for decision.

(f) The referee will have power to expand or limit the amount and duration of discovery. The referee may set or extend discovery deadlines or cutoffs for good cause, including a party's failure to provide requested discovery for any reason whatsoever. Unless otherwise ordered based upon good cause shown, no party shall be entitled to "priority" in conducting discovery, depositions may be taken by either party upon seven (7) days written notice, and all other discovery shall be responded to within fifteen (15) days after service. All disputes relating to discovery which cannot be resolved by the parties shall be submitted to the referee whose decision shall be final and binding.

(g) Except as expressly set forth herein, the referee shall determine the manner in which the reference proceeding is conducted including the time and place of hearings, the order of presentation of evidence, and all other questions that arise with respect to the course of the reference proceeding. All proceedings and hearings conducted before the referee, except for trial, shall be conducted without a court reporter, except that when any party so requests, a court reporter will be used at any hearing conducted before the referee, and the referee will be provided a courtesy copy of the transcript. The party making such a request shall have the obligation to arrange for and pay the court reporter. Subject to the referee's power to award costs to the prevailing party, the parties will equally share the cost of the referee and the court reporter at trial.

(h) The referee shall be required to determine all issues in accordance with existing case law and the statutory laws of the State of California. The rules of evidence applicable to proceedings at law in the State of California will be applicable to the reference proceeding. The referee shall be empowered to enter equitable as well as legal relief, enter equitable orders that will be binding on the parties and rule on any motion which would be authorized in a court proceeding, including without limitation motions for summary judgment or summary adjudication. The referee shall issue a decision at the close of the reference proceeding which disposes of all claims of the parties that are the subject of the reference. Pursuant to CCP Section 644, such decision shall be entered by the Court as a judgment or an order in the same manner as if the action bad been tried by the Court and any such decision will be final, binding and conclusive. The parties reserve the right to appeal from the Final judgment or order or from any appealable decision or order entered by the referee. The parties reserve the right to findings of fact, conclusions of laws, a written statement of decision, and the right to move for a new trial or a different judgment, which new trial, if granted, is also to be a reference proceeding under this provision.

(i) If the enabling legislation which provides for appointment of a referee is repealed (and no successor statute is enacted), any dispute between the parties that would otherwise be determined by reference procedure will be resolved and determined by arbitration. The arbitration will be conducted by a retired judge or justice, in accordance with the California

Arbitration Act Section 1280 through Section 1294.2 of the CCP as amended from time to time. The limitations with respect to discovery set forth above shall apply to any such arbitration proceeding.

(j) THE PARTIES RECOGNIZE AND AGREE THAT ALL CONTROVERSIES, DISPUTES AND CLAIMS RESOLVED UNDER THIS REFERENCE PROVISION WILL BE DECIDED BY A REFEREE AND NOT BY A JURY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF ITS, HIS OR HER OWN CHOICE, EACH PARTY KNOWINGLY AND VOLUNTARILY, AND FOR THE MUTUAL BENEFIT OF ALL PARTIES, AGREES THAT THIS REFERENCE PROVISION WILL APPLY TO ANY CONTROVERSY, DISPUTE OR CLAIM BETWEEN OR AMONG THEM ARISING OUT OF OR IN ANY WAY RELATED TO, THIS AGREEMENT OR THE OTHER COMERICA DOCUMENTS.

3. REPRESENTATIONS AND WARRANTIES. Borrower hereby affirms to Bank, that all of Borrower's representations and warranties set forth in the Agreement are true, complete and accurate in all respects as of the date hereof.

4. NO DEFAULTS. Borrower hereby affirms to Bank that, after giving effect to this Amendment, no Event of Default has occurred and is continuing as of the date hereof.

5. CONDITION PRECEDENT. The effectiveness of this Amendment is expressly conditioned upon receipt by Bank of:

(a) an executed copy of this Amendment;

(b) payment to Bank of a commitment fee equal to $3,000 in consideration of this Amendment; and

(c) payment of all of Bank's costs and expenses incurred in connection with this Amendment.

6. COSTS AND EXPENSES. Borrower shall pay to Bank all of Bank's out-of-pocket costs and expenses arising in connection with the preparation, execution, and delivery of this Amendment and all related documents.

7. LIMITED EFFECT. In the event of a conflict between the terms and provisions of this Amendment and the terms and provisions of the Agreement, the terms and provisions of this Amendment shall govern. In all other respects, the Agreement, as amended and supplemented hereby, shall remain in fall force and effect.

8. CHOICE OF LAW. This Amendment shall be governed by, construed and interpreted in accordance with the internal laws (and not the law of conflicts) of the state of California.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their authorized representatives the day and year first above written.

COMERICA BANK

By: /s/ Thomas R. Kelly

Its: Vice President

UNIVERSAL ELECTRONICS INC., a Delaware corporation

By: Bryan M. Hackworth

Its: Chief Financial Officer

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (the "AGREEMENT") is entered into as of January 2, 2007, by and between Universal Electronics Inc., a Delaware corporation (the "COMPANY") and the undersigned party (the "INDEMNITEE").

RECITALS

A. Indemnitee has agreed to serve as a director and/or executive officer of the Company, and, as such, will perform valuable services in such capacity for the Company.

B. In order to induce and encourage the Indemnitee to serve as a director and/or executive officer of the Company, the Company has determined and agreed to enter into this contract with the Indemnitee.

NOW, THEREFORE, in consideration of the Indemnitee's continued service as a director and/or executive officer of the Company the parties hereto agree as follows:

1. Indemnification.

   a. Indemnification of Expenses. The Company shall indemnify and hold harmless the Indemnitee (including the Indemnitee's spouse, heirs, estate, executor or personal or legal representatives) and each person who controls the Indemnitee or who may be liable within the meaning of Section 15 of the Securities Act of 1933, as amended (the "SECURITIES ACT"), or Section 20 of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), to the fullest extent permitted by law, if the Indemnitee was or is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, any threatened, pending or completed action, suit, proceeding or alternative dispute resolution mechanism, or any hearing, inquiry or investigation that the Indemnitee believes might lead to the institution of any such action, suit, proceeding or alternative dispute resolution mechanism, whether civil, criminal, administrative, investigative or other (hereinafter a "CLAIM") by reason of (or arising in part out of) any event or occurrence related to the fact that the Indemnitee is or was a director, officer, employee, controlling person, agent or fiduciary of the Company, or any direct or indirect subsidiary of the Company or any direct or indirect parent of the Company, or is or was serving at the request of the Company as a director, officer, employee, controlling person, agent or fiduciary of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action or inaction on the part of the Indemnitee while serving in such capacity including, without limitation, any and all losses, claims, damages, expenses and liabilities, joint or several (including any investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit, proceeding or any claim asserted) under the Securities Act, the Exchange Act or other federal or state statutory law or regulation, at common law or otherwise, that relate directly or indirectly to the registration, purchase, sale or ownership of any securities of the Company or to any fiduciary obligation owed with respect thereto (hereinafter an "INDEMNIFICATION EVENT") against any and all expenses (including attorneys' fees and all other costs, expenses and obligations incurred in connection with investigating, defending, serving as a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in, any such action, suit, proceeding, alternative dispute resolution mechanism, hearing, inquiry or investigation), judgments, fines, penalties and amounts paid in settlement (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld or delayed) of such Claim, and any federal, state, local or foreign taxes imposed on the Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement, and all interest, assessments and other charges paid or payable thereon or in respect thereto (collectively, hereinafter "EXPENSES"). Except as set forth below in SECTION 1(b), such payment of Expenses shall be made by the Company as soon as practicable but in any event no later than five (5) days after written demand by the Indemnitee therefor is presented to the Company.

b. Reviewing Party. Notwithstanding the foregoing, (i) the obligations of the Company under SECTION 1(a) and SECTION 2(a) shall be subject to the condition that the Reviewing Party (as described in SECTION 9(e) hereof) shall not have --- determined (in a written opinion, in any case in which the Independent Legal Counsel referred to in SECTION 9(d) hereof is involved) that the Indemnitee would not be permitted to be indemnified under the terms of this Agreement or applicable law and communicates this in writing to the Indemnitee, and (ii) the Indemnitee acknowledges and agrees that the obligation of the Company to make an advance payment of Expenses to the Indemnitee pursuant to SECTION 1(a) and SECTION 2(a) (an "EXPENSE ADVANCE") shall be subject to the condition that, if, when and to the extent that the Reviewing Party determines that the Indemnitee would not be permitted to be so indemnified under applicable law, the Company shall be entitled to be reimbursed by the Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid; provided, however, that if the Indemnitee has commenced or thereafter commences legal proceedings in a court of competent jurisdiction to secure a determination that the Indemnitee should be indemnified under applicable law, any determination made by the Reviewing Party that the Indemnitee would not be permitted to be indemnified under applicable law shall not be binding and the Indemnitee shall not be required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). The Indemnitee's obligation to reimburse the Company for any Expense Advance shall be unsecured and no interest shall be charged thereon.

If there has not been a Change in Control (as defined in SECTION 9(c) hereof), the Reviewing Party shall be selected by the Board of Directors or similar governing body of the Company, and if there has been such a Change in Control (other than a Change in Control that has been approved by a majority of the Company's Board of Directors or similar governing body who were in office immediately prior to such Change in Control), the Reviewing Party shall be the Independent Legal Counsel referred to in SECTION 9(d) hereof.

If there has been no determination by the Reviewing Party within thirty (30) days after a written demand for indemnification has been presented to the Company by the Indemnitee or if the Reviewing Party determines that the Indemnitee substantively would not be permitted to be indemnified in whole or in part under the terms of this Agreement or applicable law and the Reviewing Party notifies the Indemnitee in writing of such determination, then the Indemnitee shall have the right to commence litigation seeking an initial determination by the court or challenging any such determination by the Reviewing Party or any aspect thereof, including the legal or factual bases therefor, and the Company hereby consents to service of process and to appear in any such proceeding.

Any determination by the Reviewing Party otherwise shall be conclusive and binding on the Company and the Indemnitee.

c. Contribution. If the indemnification provided for in SECTION 1(a) above for any reason is held by a court of competent jurisdiction to be unavailable to the Indemnitee in respect of any losses, claims, damages, expenses or liabilities referred to therein, then the Company, in lieu of indemnifying the Indemnitee thereunder, shall contribute to the amount paid or payable by the Indemnitee as a result of such losses, claims, damages, expenses or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the Company and the Indemnitee, or (ii) if the allocation provided by CLAUSE (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in CLAUSE (i) above but also the relative fault of the Company and the Indemnitee in connection with the action or inaction that resulted in such losses, claims, damages, expenses or liabilities, as well as any other relevant equitable considerations. In connection with any registration of the Company's securities, the relative benefits received by the Company and the Indemnitee shall be deemed to be in the same respective proportions that the net proceeds from the offering (before deducting expenses) received by the Company and the Indemnitee, in each case as set forth in the table on the cover page of the applicable prospectus, bear to the aggregate public offering price of the securities so offered. The relative fault of the Company and the Indemnitee shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Indemnitee and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Indemnitee agree that it would not be just and equitable if contribution pursuant to this SECTION 1(c) were determined by pro rata or per capita allocation or by any other method of allocation that does not take account of the equitable considerations referred to in the immediately preceding paragraph. In connection with any registration of the Company's securities, in no event shall the Indemnitee be required to contribute any amount under this SECTION 1(c) in excess of the lesser of: (i) that proportion of the total of such losses, claims, damages or liabilities that are indemnified against, equal to the proportion of the total securities sold under such registration statement that is being sold by the Indemnitee or (ii) the proceeds received by the Indemnitee from its sale of securities under such registration statement. No person found guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not found guilty of such fraudulent misrepresentation.

d. Survival Regardless of Investigation. The indemnification and contribution provided for in this SECTION 1 will remain in full force and effect regardless of any investigation made by or on behalf of the Indemnitee or the spouse, estate, heirs or personal or legal representative of the Indemnitee.

e. Change in Control. The Company agrees that if there is a Change in Control of the Company (other than a Change in Control that has been approved by a majority of the Company's Board of Directors or similar governing body who were in office immediately prior to such Change in Control) then, with respect to all matters thereafter arising concerning the rights of the Indemnitee to payments of Expenses under this Agreement or any other agreement or under the Company's charter documents as now or hereafter in effect, Independent Legal Counsel (as defined in SECTION 9(d) hereof) shall be selected by the Indemnitee and approved by the Company (which approval shall not be unreasonably withheld or delayed). Such counsel, among other things, shall, within thirty (30) days after a written demand for indemnification has been presented to the Company by the Indemnitee, render its written opinion to the Company and the Indemnitee as to whether and to what extent the Indemnitee would be permitted to be indemnified under the terms of this Agreement or applicable law. The Company agrees to abide by such opinion and to pay the reasonable fees of the Independent Legal Counsel referred to above and to fully indemnify such counsel against any and all expenses (including attorneys' fees), claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

f. Mandatory Payment of Expenses. Notwithstanding any other provision of this Agreement, to the extent that the Indemnitee has been successful on the merits or otherwise, including, without limitation, the dismissal of an action without prejudice, in the defense of any action, suit, proceeding, inquiry or investigation referred to in SECTION 1(a) hereof or in the defense of any claim, issue or matter therein, the Indemnitee shall be indemnified against all Expenses incurred by the Indemnitee in connection herewith.

2. Expenses; Indemnification Procedure.

a. Advancement of Expenses. Subject to SECTION 1(b), the Company shall advance all Expenses incurred by the Indemnitee as soon as practicable but in any event no later than five (5) days after written demand by the Indemnitee therefor to the Company.

b. Notice/Cooperation by the Indemnitee. The Indemnitee shall give the Company notice in writing as soon as practicable of any Claim made against the Indemnitee for which indemnification will or could be sought under this Agreement. Notice to the Company shall be directed to the Chief Legal Officer of the Company (the "CLO") at the Company's address (or such other address as the Company shall designate in writing to the Indemnitee). The CLO shall, promptly upon receipt of such a request for indemnification, advise the Company's Board of Directors in writing that Indemnitee has requested indemnification. In addition, Indemnitee shall give the Company such information and cooperation as it may reasonably require and as shall be within Indemnitee's power. The omission to so notify the Company will not relieve the Company from any liability which it may have to Indemnitee other than under this Agreement

c. No Presumptions; Burden of Proof. For purposes of this Agreement, the termination of any Claim by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that the Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law. In addition, neither the failure of the Reviewing Party to have made a determination as to whether the Indemnitee has met any particular standard of conduct or had any particular belief, nor an actual determination by the Reviewing Party that the Indemnitee has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by the Indemnitee to secure a judicial determination that the Indemnitee should be indemnified under applicable law, shall be a defense to the Indemnitee's claim or create a presumption that the Indemnitee has not met any particular standard of conduct or did not have any particular belief. In connection with any determination by the Reviewing Party or otherwise as to whether the Indemnitee is entitled to be indemnified hereunder, the burden of proof shall be on the Company to establish that the Indemnitee is not so entitled.

d. Notice to Insurers. If, at the time of the receipt by the Company of a notice of a Claim pursuant to SECTION 2(b) hereof, the Company has liability insurance in effect that may cover such Claim, the Company shall give prompt notice of the commencement of such Claim to the insurers in accordance with the procedures set forth in each of the policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such action, suit, proceeding, inquiry or investigation in accordance with the terms of such policies.

e. Selection of Counsel. If the Company shall be obligated hereunder to pay the Expenses of any Claim, the Company shall be entitled to assume the defense of such Claim, with counsel approved by the Indemnitee, upon the delivery to the Indemnitee of written notice of its election to do so. After delivery of such notice, approval of such counsel by the Indemnitee and the retention of such counsel by the Company, the Company will not be liable to the Indemnitee under this Agreement for any fees of counsel subsequently incurred by the Indemnitee with respect to the same Claim; provided that, (i) the Indemnitee shall have the right to employ the Indemnitee's counsel in any such Claim at the Indemnitee's expense and (ii) if (A) the employment of counsel by the Indemnitee has been previously authorized by the Company, (B) the Indemnitee shall have reasonably concluded that there is a conflict of interest between the Company and the Indemnitee in the conduct of any such defense and shall have promptly notified the Company in writing of such determination, or (C) the Company shall not continue to retain such counsel to defend such Claim, then the fees and expenses of the Indemnitee's counsel shall be at the expense of the Company. The Company shall not settle any proceeding in any manner which would impose any penalty or limitation on the Indemnitee without the Indemnitee's prior written consent, which consent shall not be unreasonably withheld or delayed.

3. Additional Indemnification Rights; Nonexclusivity.

a. Scope. The Company hereby agrees to indemnify the Indemnitee to the fullest extent permitted by law, even if such indemnification is not specifically authorized by the other provisions of this Agreement. In the event of any change after the date of this Agreement in any applicable law, statute or rule that expands the right of the Company to indemnify a director, manager, officer, employee, controlling person, agent or fiduciary, it is the intent of the parties hereto that the Indemnitee shall enjoy by this Agreement the greater benefits afforded by such change. Upon any change in any applicable law, statute or rule that narrows the right of the Company to indemnify a director, manager, officer, employee, agent or fiduciary, such change, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement, shall have no effect on this Agreement or the parties' rights and obligations hereunder except as set forth in SECTION 8(a) hereof.

b. Nonexclusivity. The indemnification provided by this Agreement shall be in addition to any rights to which the Indemnitee may be entitled under the Company's governance documents, any agreement, any vote of the equityholders of the Company or disinterested members of the Company's Board of Directors or similar governing body, applicable law, or otherwise. The indemnification provided under this Agreement shall continue as to the Indemnitee for any action the Indemnitee took or did not take while serving in an indemnified capacity even though the Indemnitee may have ceased to serve in such capacity.

4. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment in connection with any Claim made against the Indemnitee to the extent the Indemnitee has otherwise actually received payment (under any insurance policy or otherwise) of the amounts otherwise indemnifiable hereunder.

5. Partial Indemnification. If the Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for any portion of Expenses incurred in connection with any Claim, but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify the Indemnitee for the portion of such Expenses to which the Indemnitee is entitled.

6. Mutual Acknowledgement. The Company and the Indemnitee acknowledge that in certain instances, federal law or applicable public policy may prohibit the Company from indemnifying its directors, managers, officers, employees, controlling persons, agents or fiduciaries under this Agreement or otherwise. The Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the Securities and Exchange Commission to submit the question of indemnification to a court in certain circumstances for a determination of the Company's rights under public policy to indemnify the Indemnitee.

7. Liability Insurance. To the extent the Company maintains liability insurance applicable to directors and officers, the Indemnitee shall be covered by such policies in such a manner as to provide the Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's directors and officers.

8. Exceptions. Any other provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement:

   a. Claims Initiated by the Indemnitee. To indemnify or advance expenses to the Indemnitee with respect to Claims initiated or brought voluntarily by the Indemnitee and not by way of defense, except: (i) with respect to actions or proceedings to establish or enforce a right to indemnify under this Agreement or any other agreement or insurance policy or under the Company's governance documents now or hereafter in effect relating to Claims for Indemnifiable Events; (ii) in specific cases if the Board of Directors or similar governing body has approved the initiation or bringing of such Claim; or (iii) as otherwise required under applicable law, regardless of whether the Indemnitee ultimately is determined to be entitled to such indemnification, advance expense payment or insurance recovery, as the case may be; or

   b. Claims Under Section 16(b). To indemnify the Indemnitee for expenses and the payment of profits arising from the purchase and sale by the Indemnitee of securities in violation of Section 16(b) of the Exchange Act or any similar successor statute; or

   c. Claims Excluded Under Law. To indemnify the Indemnitee if: (i) the Indemnitee did not act in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the Company or (ii) with respect to any criminal action or proceeding, the Indemnitee had reasonable cause to believe the conduct was unlawful or (iii) the Indemnitee shall have been adjudged to be liable to the Company unless and only to the extent the court in which such action was brought shall permit indemnification as provided by applicable law.

9. Construction of Certain Phrases.

a. For purposes of this Agreement, references to the "COMPANY" shall include any other constituent entity (including any constituent of a constituent) absorbed in a consolidation or merger that, if its separate existence had continued, would have had power and authority to indemnify its directors, managers, officers, employees, agents or fiduciaries, so that if an Indemnitee is or was a director, manager, officer, employee, agent, control person, or fiduciary of such constituent entity, or is or was serving at the request of such constituent entity as a director, manager, officer, employee, control person, agent or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise, the Indemnitee shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving entity as the Indemnitee would have with respect to such constituent entity if its separate existence had continued.

b. For purposes of this Agreement, references to "OTHER ENTERPRISES" shall include employee benefit plans; references to "FINES" shall include any excise taxes assessed on the Indemnitee with respect to an employee benefit plan; and references to "SERVING AT THE REQUEST OF THE COMPANY" shall include any service as a director, manager, officer, employee, agent or fiduciary of the Company that imposes duties on, or involves services by, such director, manager, officer, employee, agent or fiduciary with respect to an employee benefit plan, its participants or its beneficiaries; and if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan, the Indemnitee shall be deemed to have acted in a manner "NOT OPPOSED TO THE BEST INTERESTS OF THE COMPANY" as referred to in this Agreement.

c. For purposes of this Agreement a "CHANGE IN CONTROL" shall be deemed to have occurred if: (i) any "person" (as such term is used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) (A) who is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing ten percent (10%) or more of the combined voting power of the Company's then outstanding Voting Securities, increases his beneficial ownership of such securities by five percent (5%) or more over the percentage so owned by such person, or (B) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than twenty percent (20%) of the total voting power represented by the Company's then outstanding Voting Securities, (ii) during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board of Directors or similar governing body of the Company and any new director whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof, or (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation other than a merger or consolidation that would result in the Voting Securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) at least eighty percent (80%) of the total voting power represented by the Voting Securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve a plan of dissolution or complete liquidation of the Company or an agreement for the sale, transfer or disposition by the Company of (in one transaction or a series of transactions) all or substantially all of the Company's assets.

d. For purposes of this Agreement, "INDEPENDENT LEGAL COUNSEL" shall mean an attorney or firm of attorneys, selected in accordance with the provisions of SECTION 1(e) hereof, who shall not have otherwise performed services for the Company or the Indemnitee within the last three (3) years (other than with respect to matters concerning the right of the Indemnitee under this Agreement, or of other indemnitees under similar indemnity agreements).

e. For purposes of this Agreement, a "REVIEWING PARTY" shall mean any appropriate person or body consisting of a member or members of the Company's Board of Directors or similar governing party, or any other person or body appointed by such body, who is not a party to the particular Claim for which the Indemnitee is seeking indemnification, or Independent Legal Counsel.

f. For purposes of this Agreement, "VOTING SECURITIES" shall mean any securities of the Company that vote generally in the election of directors.

10. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall constitute an original.

11. Binding Effect; Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company and including any estate, spouse, heirs or personal or legal representatives of the Indemnitee. The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all, or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to the Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place. This Agreement shall continue in effect with respect to Claims relating to Indemnifiable Events regardless of whether the Indemnitee continues to serve as a director, officer, employee, agent, controlling person or fiduciary of the Company or of any other enterprise, including subsidiaries of the Company, at the Company's request.

12. Attorneys' Fees. In the event that any action is instituted by the Indemnitee under this Agreement or under any liability insurance policies maintained by the Company to enforce or interpret any of the terms hereof or thereof, the Indemnitee shall be entitled to be paid all Expenses incurred by the Indemnitee with respect to such action, regardless of whether the Indemnitee is ultimately successful in such action, and shall be entitled to the advancement of Expenses with respect to such action, unless, as a part of such action, a court of competent jurisdiction over such action determines that each of the material assertions made by the Indemnitee as a basis for such action was not made in good faith or was frivolous. In the event of an action instituted by or in the name of the Company under this Agreement to enforce or interpret any of the terms of this Agreement, the Indemnitee shall be entitled to be paid all Expenses incurred by the Indemnitee in defense of such action (including costs and expenses incurred with respect to the Indemnitee counterclaims and cross-claims made in such action), and shall be entitled to the advancement of Expenses with

respect to such action, unless, as a part of such action, a court having jurisdiction over such action determines that each of the Indemnitee's material defenses to such action was made in bad faith or was frivolous.

13. Notice. All notices and other communications required or permitted hereunder shall be in writing, shall be effective when given, and shall in any event be deemed to be given: (a) five (5) days after deposit with the U.S. Postal Service or other applicable postal service, if delivered by first class mail, postage prepaid; (b) upon delivery, if delivered by hand; (c) one (1) business day after the business day of deposit with Federal Express or similar overnight courier, freight prepaid; or (d) one (1) day after the business day of delivery by facsimile transmission, if deliverable by facsimile transmission, with copy by first class mail, postage prepaid, and shall be addressed if to the Indemnitee, at the Indemnitee's address as set forth beneath the Indemnitee's signature to this Agreement and if to the Company at the address of its principal corporate offices (attention: Chief Legal Officer) or at such other address as such party may designate by ten (10) days' advance written notice to the other party hereto.

14. Consent to Jurisdiction. The Company and the Indemnitee hereby irrevocably consent to the jurisdiction of the courts of the State of California for all purposes in connection with any action or proceeding that arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be commenced, prosecuted and continued only in the courts of the State of California in and for Orange County, which shall be the exclusive and only proper forum for adjudicating such a claim.

15. Severability. The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, and the remaining provisions shall remain enforceable to the fullest extent permitted by law. Furthermore, to the fullest extent possible, the provisions of this Agreement (including, without limitations, each portion of this Agreement containing any provision held to be invalid, void or otherwise unenforceable, that is not itself invalid, void or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

16. Choice of Law. This Agreement shall be governed by and its provisions construed and enforced in accordance with the laws of the State of California, as applied to contracts between California residents, entered into and to be performed entirely within the State of California, without regard to the conflict of laws principles thereof.

17. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

18. Amendment and Termination. No amendment, modification, termination or cancellation of this Agreement shall be effective unless it is in writing signed by all parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

19. Integration and Entire Agreement. This Agreement sets forth the entire understanding between the parties hereto and supersedes and merges all previous written and oral negotiations, commitments, understandings and agreements relating to the subject matter hereof between the parties hereto; provided however, that Indemnitee's rights under the Company's Certificate of

Incorporation and Bylaws, each as amended or supplemented, and insurance policies shall not be adversely effected by this Agreement.

20. No Construction as Employment Agreement. Nothing contained in this Agreement shall be construed as giving the Indemnitee any right to be retained in the employ of the Company or any of its subsidiaries.

IN WITNESS WHEREOF, the parties hereto have executed this Indemnification Agreement on and as of the day and year first above written.

COMPANY:

UNIVERSAL ELECTRONICS INC.,
a Delaware corporation

By: ------------------------------

Name: ------------------------------

Title: ------------------------------

INDEMNITEE:

By: ------------------------------

Name: ------------------------------

Address for notices:

Exhibit 21.1

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 Italia S.R.L. (organized under the laws of Italy)

UE Singapore Pte. Ltd. (organized under the laws of Singapore)

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

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

UEIC, LP (a Texas limited partnership)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 9, 2007, accompanying the consolidated financial statements and schedule (which report expressed an unqualified opinion and contains an explanatory paragraph regarding the Company changing its method of accounting for the adoption of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, effective January 1, 2006) and management's assessment of the effectiveness of internal control over financial reporting included in the Annual Report of Universal Electronics Inc. on Form 10-K for the year ended December 31, 2006. We hereby consent to the incorporation by reference of said reports in the Registration Statements of Universal Electronics Inc. on Forms S-8 (File No. 33-66426, effective July 23, 1993, File No. 333-09021, effective August 14, 1996; File No. 333-23985, effective March 26, 1997; File No. 333-91101, effective November 17, 1999; File No. 333-95715, January 31, 2000; File No. 333-47378, effective October 5, 2000; File No. 333-103038, effective February 7, 2003, and File No. 333-117782, effective July 30, 2004).

/s/ Grant Thornton LLP

Irvine, California
March 9, 2007

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-66426, 333-09021, 333-23985, 333-91101, 333-95715, 333-47378, 333-103038 and 333-117782) of Universal Electronics Inc. of our report dated March 16, 2005, except for Note 18, as to which the date is March 9, 2007, relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Orange County, California
March 9, 2007

Exhibit 31.1

Rule 13a-14(a) Certifications

I, Paul D. Arling, certify that:

1. I have reviewed this annual report on Form 10-K of Universal Electronics Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
   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 16, 2007

/s/ Paul D. Arling

Paul D. Arling
Chief Executive Officer

Exhibit 31.2

Rule 13a-14(a) Certifications

I, Bryan M. Hackworth, certify that:

1. I have reviewed this annual report on Form 10-K of Universal Electronics Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
   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 16, 2007

/s/ Bryan M. Hackworth

Bryan M. Hackworth
Chief Financial Officer (principal financial officer
and principal accounting officer)

Exhibit 32.1

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, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul D. Arling

Paul D. Arling
Chief Executive Officer
March 16, 2007

Exhibit 32.2

Section 1350 Certifications

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

(1) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Bryan M. Hackworth

Bryan M. Hackworth
Chief Financial Officer (principal financial officer
and principal accounting officer)
March 16, 2007