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, 2005

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: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.01 per share
(Title of Class)

Indicate by check mark whether the registrant 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. o

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, 2005, the last business day of the registrant's most recently completed second fiscal quarter was $218,472,184, based upon the closing sale price as reported on the NASDAQ National Market for that date.

As of March 13, 2006, 13,698,471 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, 2005 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, 2006.

Except as otherwise stated, the information contained in this Form 10-K is as of December 31, 2005.
Exhibit Index appears on page 76. This document contains 79 pages.

UNIVERSAL ELECTRONICS INC.
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2005

Table of Contents

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.

Our operations are comprised of two reportable segments Core Business and SimpleDevices. Our Core Business reportable segment accounted for approximately 99% of our net sales for the twelve months ended December 31, 2005. We acquired our second reportable segment, SimpleDevices, on October 1, 2004.

Disaggregated financial results and assets by reportable segment can be found in Note 18 to the Consolidated Financial Statements in Item 8, incorporated herein by reference.

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

Core Business Segment

Overview

In our Core Business segment 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.

Principal Markets

The primary market segments in our Core Business include retail, private label, OEMs, custom installers, 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 devices and home automation control modules worldwide.

Products and Services

We introduced our first product, the *One For All*®, in 1987. Since then our product lines have grown. Our family of products includes universal standard and touch screen remote controls, wireless keyboards, game controllers, antennas, and various audio/video accessories, as well as custom and customizable microcontrollers that include our library of IR codes, proprietary software, and digital media control software. We also earn revenue by licensing our library of IR codes and proprietary software. These products cover a broad spectrum of suggested prices and performance capabilities.

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 (e.g. TVs, DVD and CD players, VCRs, personal digital media recorders, etc.). 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, as required, 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, *One For All*® brand name products accounted for 25.4%, 32.1%, and 30.4% of our sales for the years ended December 31, 2005, 2004, and 2003, respectively. Throughout 2005, 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.

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 246,000 individual device functions and over 2,700 individual consumer electronic equipment brand names. Our library is regularly updated with new 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 IR codes to be compressed 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 device 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 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 device's 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 2005, we continued our product innovation by launching several new products based on our two technology platforms developed in 2002: Nevo®, an embedded solution that transforms any electronic display (such as a PDA) into a sophisticated and easy-to-use wireless home control and automation device; and Kameleon®, a display technology that 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.

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 imperative to build our presence as a wireless control technology leader, enabling consumers to wirelessly connect, control, and interact within the ever-increasingly complex home.

Methods of Distribution and Customers

Over the past 18 years, we have developed a broad portfolio of patented technologies and the industry's leading database of home connectivity software that we license to our customers, including many leading Fortune 500 companies. We have also developed a broad family of products including universal standard and touch screen remote controls, wireless keyboards, game controllers, antennas, and various audio/video accessories, as well as custom and customizable microcontrollers that include our library of IR codes, proprietary software, and digital media control software.

In the United States, we sell our products and/or license our proprietary technology 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 license our proprietary technologies to OEMs for use in their products. We have also licensed certain of our proprietary technology to third parties and 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 seven international subsidiaries, Universal Electronics B.V., established in The Netherlands, One For All GmbH and Ultra Control Consumer Electronics GmbH, both established in Germany, One for All Iberia S.L., established in Spain, One For All (UK) Ltd., established in the United Kingdom, One For All Argentina S.R.L., established in Argentina, and One For All France S.A.S., established in France.

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

SimpleDevices Segment Description

Overview

On October 1, 2004, we acquired 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 future, if certain financial objectives are achieved.

SimpleDevices, based in San Mateo, California, develops 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

SimpleDevices’ primary market segments are OEMs operating in the consumer electronics, automobile, cellular phone, and subscription broadcasting industries.

Products and Services

To date, revenues earned by our SimpleDevices segment have consisted primarily of engineering services related to the development of hardware utilized by our customers to run the SimpleDevices’ software products and customizing our software to customers’ specific needs. We anticipate that sales generated as a result of software customization and engineering services will begin to decline as a percentage of total sales as software licensing fees and the associated maintenance fees begin to increase as these new products ship. We also anticipate that gross profit and gross profit as a percentage of net sales will increase as this shift occurs. Key software products that we have developed include the following:

- *The SimpleWare UPnP Device Enabler*-provides core UPnP implementation support, allowing OEMs to develop devices that interoperate with other devices on a network.
- *SimpleWare Media Server Software Development Kit* - provides a Java content server solution that enables UPnP-compatible devices to communicate with the server to navigate the content directory and stream or download content. The SimpleWare Media Server can run on a variety of platforms, including network gateways, set top boxes and PCs to serve content to home media devices. In

addition, the SimpleWare Media Server Software supports content enhancement applications designed for SimpleWare-powered devices, including content synchronization, scheduling and music metadata access.

- *The SimpleWare Connected Media Player Software Development Kit* – Software that enables devices to connect to a home media server and playback stored audio and video content. The SimpleWare Connected Media Player SDK supports the emerging UPnP AV standard for connecting with media servers in the home. Supporting this standard means that the OEM device can interoperate with media servers running on PCs, routers, gateways and dedicated home media servers. Implementation of the software development kit also offers enhanced applications to improve the user experience.
- *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.
- *Automobile Digital Media Player Software Development Kit* – A complete electrical and firmware design for a wireless Wi-Fi 802.11 digital media player for the automobile. When implemented the software enables the Automobile Digital Media Player to awake nightly (or at a scheduled time), discover online UPnP media servers, and download new content from the media server onto the onboard hard disc drive (“HDD”). Alternatively, users can remove the detachable HDD and connect it to a PC via USB cable. The SimpleWare device software then synchronizes new content between the PC and the HDD. Users can also record content from an attached DVD player. One-touch navigation allows users to jump quickly to an artist, album, or genre.

Methods of Distribution and Customers

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. Services are performed at SimpleDevices, 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.

Raw Materials and Dependence on Suppliers

We utilize third-party manufacturers and suppliers primarily in Asia and the United States to produce our wireless control products. The number of third party manufacturers or suppliers that provided us in excess of 10% of our manufacturing services and/or components was one, two, and three for 2005, 2004 and 2003, respectively. In 2005, Computime provided 33.9% of our manufacturing services and components. In 2004, Computime and Samsung collectively provided 38.7% of our manufacturing services and components. In 2003, Computime, Jetta and Samsung collectively provided 45% of our manufacturing services and components.

As in the past, we continue to evaluate alternative and additional third-party manufacturers and sources of supply. During 2005, 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 156 issued and pending patents at the end of 2005, an increase from 137 at the end of 2004. The remaining life of our patents range 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 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 22 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. The SimpleDevices’ SimpleWare product lines compete in part with those of Mediabolic, Digital 5, and Bridgeco. SimpleDevices’ SimpleCenter products compete with Microsoft, Real Networks, Apple and Musicmatch among others. In the subscription broadcasting business line, we compete with various distributors in the United States and several of the larger set-top manufacturers, including Motorola and Scientific-Atlanta. The NevoSL® product, which was released in the second quarter of 2005, competes in the custom electronics installation market against Crestron, 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 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 2005, 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 2005, our product development efforts focused on new and innovative wireless control and interface solutions resulting in the launch of new retail SKUs based on the Kameleon® interface technology. 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.

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.

SimpleDevices' development was focused on the discovery of new, technologically advanced knowledge and more complete solutions to customer needs, the conceptual formulation and design of possible alternatives, as well as the testing of process and product cost improvements. If successful, these efforts will enable SimpleDevices to provide customers with reductions in design cycle times, lower costs, and improvements in integrated circuit design, product quality and overall functional performance. Additionally, these efforts will enable SimpleDevices to further penetrate existing markets, pursue new markets effectively and expand the business.

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 by reportable segments were:

(in millions):	2005		2004		2003*	
	Core	SDI	Core	SDI	Core	SDI
Research and Development	$ 6.2	$ 0.4	$ 5.7	$ 0.2	$ 4.7	$ —
Engineering	3.4	1.7	2.9	0.4	1.7	—
Total Engineering, Research and Development	$ 9.6	$ 2.1	$ 8.6	$ 0.6	$ 6.4	$ —

* SimpleDevices was acquired on October 1, 2004, and therefore any engineering, research and development performed during 2003 are not reflected in the table above.

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 currently proposed in China.

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.

Implementation in certain EU member states may be delayed into 2006. 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 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, 2005, 2004 and 2003, 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, 2005, we employed 329 employees, of whom 109 work in engineering and research and development, 57 in sales and marketing, 66 in consumer service and support, 35 in operations and warehousing and 62 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, 2005, 2004 and 2003 is included in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-Notes to Consolidated Financial Statements-Note 18".

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 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 and our customers; the growth of, acceptance of and the demand for our products and technologies in various markets and geographical regions, including cable, satellite, consumer electronics, retail, 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.

In addition, during 2005, one source, Computime, provided over ten percent (10%) of our component and finished product inventory purchases. Purchases from this significant supplier amounted to $35.5 million, or 33.9%, of total inventory purchases during 2005. Purchases with the same significant supplier amounted to $25.5 million, or 28.2%, of total inventory purchases in 2004.

We have identified alternative sources of supply for these integrated circuits, components, and finished goods, but 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 foreign countries manufacture a majority of our products. Our arrangements with our foreign manufacturers are subject to the risks of doing business abroad, such as import duties, trade restrictions, work stoppages, political instability, 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, 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 likely 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 will likely 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 may require more end-user technical support. For our Nevo® product line, we currently rely, and intend to continue to rely, on the distributor or dealers to provide first line technical support to the end-users. However, 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.

During the years ended December 31, 2005 and 2004, we had sales to one customer, Comcast, that amounted to more than 10% of our net sales for the respective periods. In addition, for the same periods, we had sales to DirecTV and its sub-contractors, that when combined, exceeded 10% of net sales. The future loss of these customers or any key customer, either in the United States or abroad, due to their financial weakness, bankruptcy, 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.

SimpleDevices Inc.
On October 1, 2004, we acquired SimpleDevices Inc. 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 future, if certain financial objectives are achieved. SimpleDevices, based in San Mateo, California, develops 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. The success of SimpleDevices will depend upon a variety of factors including, (i) our ability to bring SimpleDevices' products to market in a timely and cost effective manner; (ii) the market accepting SimpleDevices' products and technology to the extent anticipated by us; (iii) our ability to integrate SimpleDevices' products and business into our own product offerings and business in a cost effective manner; and (iv) our ability to control the overall costs associated with SimpleDevices in the manner we anticipate. The failure of any of these items could have a material effect on our financial condition, results of operations and cash flows.

We may enter into contracts to perform customization of our software on behalf of a customer, where the agreement's terms allow an initial trial period, after which the customer has the option to purchase a license for the finished product at a contracted rate (also known as a "try and buy" agreement). There can be no assurance that these products will achieve customer acceptance. In addition, management may enter into contracts to provide a software product to a reseller for a nominal licensing fee, while making an optional premium upgrade available to the end user for an additional charge. It is impossible to predict with complete accuracy the occurrence and effect of fluctuations in consumer demand for these premium upgrades over a products life cycle.

Internal Investments
During 2004 we hired 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, Zensys 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, in the event that such outside services cease being 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 and other 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 – in that sales of our products and technology may not occur or grow in the manner expected by us, and thus we may not recoup costs incurred in the research and development of these products as quickly as we expect or 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
The 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 relating to making foreign direct investments, which could affect our ability to obtain favorable terms for components or lead to penalties or restrictions;
- difficulties associated with repatriating cash generated or held abroad in a tax-efficient manner and changes in tax laws;
- fluctuations in freight costs and disruptions at important geographic points of exit and entry; and
- natural and medical disasters.

General Economic Conditions

General economic conditions, both domestic and 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

Every year we learn of changes in the laws and regulations regarding our environment. With the recent passage of the European Union's Restriction of Hazardous Substances Directive, and the restrictions to be imposed by similar legislation currently proposed in China, 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.

Terrorism and Acts of War

Terrorism and acts of war (wherever occurring throughout the world) may cause damage or disruption to us, our employees, facilities, partners, suppliers, distributors, resellers or customers, which could significantly impact our revenues, expenses and financial condition. We are predominately uninsured for losses and interruptions caused by terrorist acts and acts of war.

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 Would Harm Our Ability to Grow and Meet Key Objectives.
Our ability to achieve growth in the future will depend, in part, on our success at recruiting, hiring, and retaining highly skilled engineering, managerial, 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. 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
Our current credit facility is set to expire in September 2006 and we are in discussions with our bank to extend this facility. 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 be extended and thus available to us in the event we need to borrow. If this or any 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 and, as a result, products may be shipped via air which is more costly than ocean shipments. Often, we cannot recover the increased cost of airfreight from our customers. The inability to predict swings in demand 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.

Our Proprietary Technologies May Include Design or Performance Defects and May Not Achieve Their Intended Results
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.

Acquisitions
We may, from time to time, pursue the acquisition of businesses, products or technologies that complement or expand our existing operations, including those that could be material in size and scope. Acquisitions 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 assimilate the operations, personnel, customer base, products or technologies of an acquired business. Such acquisitions 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, 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 acquisitions will occur or, if such acquisitions do occur, that the acquired businesses, 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:

Core Business Reportable Segment

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

SimpleDevices Reportable Segment

Location	Purpose or Use	Square Feet	Status
San Mateo, California	SimpleDevices headquarters, 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. 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 claims between the distributor and two of our other subsidiaries, namely, Universal Electronics BV ("UEBV"), One For All Iberia SL, such that the proceeding covers all claims and counterclaims between the various parties and further agreed that before any judgments are to be paid, all matters of conflict between the various parties would be concluded. These additional claims involve nonpayment for products and damages resulting from the wrongful termination of agency agreements. On March 15, 2005, the court in one of the litigation matters brought by the distributor against one of the subsidiaries, rendered judgment against the subsidiary and awarded damages and costs to the distributor in the amount of approximately $102,000. The subsidiary has appealed this decision and asked the court to stay the execution of the judgment as it is part of the overall litigation matters between the various parties. In February 2006, the court denied our subsidiary's request and it filed an appeal seeking to stay this judgment. The amount of this judgment was charged to operations during the second quarter of 2005 and is recorded as a liability as of December 31, 2005. With respect to the remaining matters before the court, the parties met with the court appointed expert in February 2006, and we expect the expert to finalize and file his pre-trial report to the court during the quarter ending June 30, 2006. We will continue to seek a settlement of all of these matters, but if settlement is not possible, each of the subsidiaries will continue to disagree with the allegations of the former distributor and will vigorously defended itself against the counterclaims.

In 2003, an ex-employee of one of our subsidiaries brought an action against our subsidiary seeking damages in the amount of approximately $191,000 for wrongful termination. The subsidiary disagreed with these allegations and vigorously defended itself against this claim. In January 2005, judgment was rendered for the ex-employee awarding him approximately $26,000 in damages. In March 2005, our subsidiary paid this judgment. In February 2005, the ex-employee filed a notice of appeal, which has been scheduled for hearing in late 2006. It is our intention to seek a settlement of this matter with the ex-employee. If a settlement is not possible, our subsidiary will again vigorously defend itself.

On January 7, 2004, James D. Lyon, Trustee for the bankruptcy estate of Computrex, Inc. ("Trustee") filed an action against us alleging that we received preferential treatment in connection with certain payments amounting to $528,000 made on our behalf by Computrex to our freight carriers. In addition to seeking a return of the alleged preferential payments, the Trustee has asked for costs, and pre- and post-judgment interest. We have not yet answered this complaint and will not need to do so as this action is currently in abeyance while the Trustee appeals an adverse ruling against it in another matter having facts similar to those in the Trustee's action against us. In April 2005, an appellate court affirmed the ruling against the Trustee in this other matter. If and when we answer, we intend to deny all of the material allegations made against us and defend this matter vigorously and we will continue to pursue the proof of claim we filed in May 2002 in the amount of $106,000 with the Bankruptcy Court against the bankruptcy estate of Computrex seeking a return of freight charges paid to Computrex for which it failed to remit to our freight carriers.

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, except for the employment matter of which we intend to seek settlement, we intend to vigorously defend ourselves against them. As of December 31, 2004, because incurring a loss relating to the employment matter was both probable and estimable, a loss contingency of $191,000 was recorded and still remains on the books at December 31, 2005.

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.

No Tax Shelter Penalty
No tax shelter penalty was assessed against us or any of our subsidiaries by the Internal Revenue Service ("IRS"), in fiscal year 2005 or at any other time, in connection with any transaction deemed by the IRS to be abusive or to have a tax avoidance purpose.

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*

The following table sets forth certain information concerning our executive officers as of March 16, 2006:

Name	Age	Position
Paul D. Arling	43	Chairman of the Board and Chief Executive Officer
Robert P. Lilleness	39	President and Chief Operating Officer
Paul J.M. Bennett	50	Senior Vice President, Managing Director, Europe
Richard A. Firehammer, Jr.	48	Senior Vice President, General Counsel and Secretary

---

* 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 2005 Annual Meeting of Stockholders, Mr. Arling was re-elected as Chairman of the Company to serve until the 2006 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.

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

Paul J.M. Bennett has been our Managing Director and a Senior Vice President, Managing Director, Europe since July 1996. 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.

Richard A. Firehammer, Jr., Esq. has been our Senior Vice President since February 1999. He has been our Company's 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.

PART II

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

Our common stock trades on the NASDAQ National Market under the symbol UEIC. The closing price of our common stock as reported by the NASDAQ National Market on March 13, 2006 was $17.72. Our stockholders of record on March 13, 2006 numbered approximately 87. 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."

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

	2005		2004	
	High	Low	High	Low
First Quarter	$ 18.54	$ 16.31	$ 13.33	$ 12.26
Second Quarter	17.76	15.35	17.94	12.60
Third Quarter	18.58	16.11	18.80	14.57
Fourth Quarter	18.69	16.07	19.43	16.60

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	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
1/1/05 - 1/31/05	99,654	$ 17.33	—	859,612
2/1/05 - 2/29/05	6,631	16.80	—	852,981
3/1/05 - 3/31/05	—	—	—	852,981
4/1/05 - 4/30/05	—	—	—	852,981
5/1/05 - 5/31/05	171,701	16.97	—	681,280
6/1/05 - 6/30/05	78,299	17.34	—	602,981
7/1/05 - 7/31/05	—	—	—	602,981
8/1/05 - 8/31/05	—	—	—	602,981
9/1/05 - 9/30/05	—	—	—	602,981
10/1/05 - 10/31/05	—	—	—	602,981
11/1/05 - 11/30/05	—	—	—	602,981
12/1/05 - 12/31/05	—	—	—	602,981
Total	356,285	$ 17.15	—	

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 and also to return cash to stockholders. This program authorizes repurchases in the open market. We repurchased 356,285 shares during the year ended December 31, 2005. We did not repurchase any shares during the fourth quarter of 2005.

Information regarding our equity compensation plans, including both stockholder approved plans and plans not approved by stockholders, is set forth below in response to Part II, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, under the caption "Equity Compensation Plan Information."

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and the Consolidated Financial Statements and notes thereto included in Item 8, “Financial Statements and Supplementary Data,” of this Form 10-K, which are incorporated herein by reference, in order to understand further the factors that may affect the comparability of the financial data presented below.

	Year Ended December 31,				
(in thousands, except per share data)	2005	2004	2003	2002	2001
Net sales	$181,349	$158,380	$120,468	$103,891	$119,030
Operating income	$ 11,677	$ 13,540	$ 8,573	$ 6,981	$ 16,009
Net income	$ 9,701	$ 9,114	$ 6,267	$ 5,939	$ 11,286
Earnings per share:					
Basic	$ 0.72	$ 0.67	$ 0.46	$ 0.43	$ 0.82
Diluted	$ 0.69	$ 0.65	$ 0.45	$ 0.42	$ 0.78
Shares used in calculating earnings per share:					
Basic	13,462	13,567	13,703	13,790	13,844
Diluted	13,992	14,100	14,007	14,163	14,523
Gross margin	37.0%	38.9%	38.4%	40.1%	41.2%
Operating margin	6.4%	8.6%	7.1%	6.7%	13.4%
Selling, general, administrative, research and development expenses as a % of net sales	30.6%	30.3%	31.3%	33.4%	27.8%
Net income as a % of net sales	5.4%	5.8%	5.2%	5.7%	9.5%
Return on average assets	6.8%	6.8%	5.5%	6.1%	12.0%
Working capital	$ 77,201	$ 75,081	$ 82,191	$ 71,457	$ 67,422
Ratio of current assets to current liabilities	2.8	3.1	3.7	5.3	5.5
Total assets	$146,319	$140,400	$126,167	$100,016	$ 94,705
Cash and cash equivalents	$ 43,641	$ 42,472	$ 58,481	$ 18,064	$ 14,170
Short-term investments	—	—	—	$ 22,500	$ 20,100
Long-term debt	—	—	—	$ 41	$ 104
Stockholders’ equity	$103,292	$103,881	$ 95,171	$ 83,237	$ 79,702
Book value per share (a)	$ 7.63	$ 7.66	$ 6.89	$ 6.17	$ 5.78
Ratio of liabilities to liabilities and stockholders’ equity	29.4%	26.0%	24.6%	16.8%	15.8%

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

A factor that affected the comparability of information between 2002 and 2001 was our implementation of Statement of Financial Accounting Standards (“SFAS”) No. 142 on January 1, 2002, which requires that goodwill no longer be amortized. In addition, the comparability of 2005 and 2004 with prior years is affected by the acquisition of SimpleDevices Inc. in the fourth quarter of 2004 (See Note 21 to the consolidated financial statements).

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 cover nearly 246,000 individual device functions and over 2,700 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.

Beginning in 2002, we began selling our Nevo® 1.0 software embedded on our chip. Nevo 2.0® was launched in July of 2004. Both these products were featured on a series of Hewlett Packard Personal Digital Assistants (PDA), which reached their end of life during the third quarter of 2005. Building on this platform, we used some components of the Nevo 2.0® technology in a new product named "NevoSL"® which we began to ship in the second quarter of the 2005. NevoSL® is a universal controller that delivers complete audio, visual and Wi-Fi digital media control for the networked home.

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 are achieved. The performance-based payment has not been reflected as part of the purchase price as of December 31, 2005, since we believe that it is not probable that the performance metrics will be 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, public spaces, or attached to the Internet. UPnP is a distributed, open networking architecture that leverages TCP/IP and the Web technologies to enable seamless proximity networking in addition to control and data transfer among networked devices in the home, office, and public spaces.

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, intangible assets and goodwill, and income taxes. Actual results may differ from the estimates, and these estimates may be adjusted as more information becomes available and any adjustment could be significant.

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

Revenue recognition. We recognize revenue on the sale of products when 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 delivery of our products other than the associated warranties.

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. 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.

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

Inventories. Our inventories consist of wireless control devices, including universal remote controls, wireless keyboards, antennas, and related component parts (including integrated circuits) and are valued at the lower of cost or market. Cost is determined using the first-in, first-out method. We 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, additional inventory write-downs may be required.

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. The total purchase price of SimpleDevices, which was approximately $12.8 million, including direct acquisition costs, 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.

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 reporting unit goodwill to its carrying amount. In calculating the implied fair value of the reporting unit 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.

Income Taxes. As part of the process of preparing our consolidated financial statements, we estimate our income taxes in each of the taxing jurisdictions in which we operate. This process involves estimating our actual current tax expense together with assessing any temporary differences resulting from the different treatment of certain items, such as the timing for recognizing expenses, for tax and financial reporting purposes. These differences may result in deferred tax assets and liabilities, which are included in our consolidated balance sheet.

We are required to assess the likelihood that our deferred tax assets, which include net operating loss carryforwards and temporary differences that are expected to be deductible in future years, will be recoverable from future taxable income or other tax planning strategies. If recovery is not likely, we must provide a valuation allowance based on our estimates of future taxable income in the various taxing jurisdictions and the amount of deferred taxes that are ultimately realizable.

The provision for tax liabilities involves evaluations and judgments of uncertainties in the interpretation of complex tax regulations by various taxing authorities. In situations involving tax related uncertainties, we provide for deferred tax liabilities when we believe such liabilities are probable. Actual results could differ from our estimates.

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,		
	2005	2004	2003
Net sales	100.0%	100.0%	100.0%
Cost of sales	63.0	61.1	61.6
Gross profit	37.0	38.9	38.4
Research and development expenses	3.6	3.7	3.9
Selling, general and administrative expenses	27.0	26.6	27.4
Operating income	6.4	8.6	7.1
Interest income	0.5	0.5	0.5
Other income (expense), net	1.2	(0.4)	0.3
Income before income taxes	8.1	8.7	7.9
Provision for income taxes	2.7	2.9	2.7
Net income	5.4%	5.8%	5.2%

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. 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 $150 – $160 million in 2006.

Net sales in our Consumer lines (*One For All*® international 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. We expect Consumer category revenue to range between $55 — $65 million in 2006.

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. We expect research and development expense to remain near current levels for the full year 2006.

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. We expect that selling, general, and administrative expenses will range from $55 to $59 million for the full year 2006.

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. Net interest income will be approximately $1.0 million in 2006.

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. We estimate that our effective tax rate will range between 34.0% and 36.0% for the full year 2006 (see Note 16 to the consolidated financial statements).

SimpleDevices

SimpleDevices recorded net sales of $1.5 million and a pretax loss of $4.0 million in 2005. Sales consisted primarily of engineering services related to the development of hardware utilized by SimpleDevices' customers to run the SimplePlatforms software. In addition, SimpleDevices also generated revenue by customizing its software products to customer's specific needs. Sales attributable to SimpleDevices are included in our Business category when we discuss consolidated results. The results of SimpleDevices have been included since the date of acquisition and are described below.

Gross profit was $0.1 million, or 6.4% of sales.

Research and development expenses were $0.4 million, which consisted primarily of internal and external development efforts related to SimpleDevices' core software product.

Selling, general and administrative expenses were $3.7 million, which consisted primarily of engineering payroll and benefits costs as well as outside product development costs.

We anticipate that sales generated as a result of software customization and engineering services will begin to decline as a percent of total sales as software licensing fees and the associated maintenance fees begin to increase. We also anticipate that gross profit and gross profit as a percent of net sales will increase as this shift occurs.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Consolidated

Net sales for the year ended December 31, 2004 were $158.4 million, an increase of 31% compared to $120.5 million for the year ended December 31, 2003. Net income for 2004 was $9.1 million or $0.67 per share (basic) and $0.65 per share (diluted) compared to $6.3 million or $0.46 per share (basic) and $0.45 per share (diluted) for 2003.

	2004		2003	
	$ (millions)	% of total	$ (millions)	% of total
Net sales:				
Business	$ 97.6	61.6%	$ 69.7	57.8%
Consumer	60.8	38.4%	50.8	42.2%
Total net sales	$ 158.4	100.0%	$ 120.5	100.0%

Net sales in our business lines (subscription broadcasting, OEM, and computing companies) were approximately 62% of net sales for 2004 compared to 58% for 2003. Net sales in our business lines for 2004 increased by 40% to $97.6 million from $69.7 million in 2003. Net sales to subscription broadcasting service providers and OEMs for 2004 increased by 40% to $96.6 million from $68.9 million in 2003. The increase in sales resulted from an increase in the volume of remote control sales, which was partially offset by lower prices. The increase in volume was attributable to the continued deployment of advanced function set-top boxes by the service operators. These advanced functions include personal video recording (“PVR”), video-on-demand (“VOD”), and high definition (“HD”) television.

Net sales in our consumer lines (*One For All*® international retail, private label, and direct import) accounted for approximately 38% of net sales for 2004 compared to 42% for 2003. Our net sales for 2004 from our consumer lines were $60.8 million, an increase of 20% from net sales of $50.8 million in 2003. Of this increase, the *One For All*® international retail sales for 2004 increased by 39% to $50.8 million from $36.6 million in 2003. About $4.5 million of this increase was related to favorable foreign exchange rate movements, as both the Euro and British Pound strengthened compared to the U.S. Dollar. The remaining improvement in international retail sales was due to an increase in sales of our Sky-branded digital accessories, *One For All*® remote controls, and audio-video accessories. Private label sales for 2004 decreased by 27% to $6.8 million from $9.3 million in 2003 due to a decline in the volume of Kameleon® sales. United States direct import licensing and product revenues for 2004 decreased by 33% to $3.2 million from $4.8 million in 2003 due to a decline in the volume of Kameleon® sales.

Gross profit for 2004 was $61.6 million compared to $46.3 million for 2003. Gross profit as a percent of sales for 2004 was 38.9% compared to 38.4% for 2003. The increase was primarily attributable to the strengthening of the Euro and British Pound compared to the U.S. Dollar, which resulted in an increase of approximately $4.1 million profit and added 1.5% to the gross profit rate. This increase was partially offset by increased inventory write-downs of $0.9 million which contributed to a 0.5% reduction in the gross profit rate. In addition, the increase in gross profit rate was partially offset by OEM sales, which generally have a lower gross profit rate, being a larger percentage of our total business.

Research and development expenses increased 25% from $4.7 million in 2003 to $5.9 million in 2004. The increase was related to our continued expansion of the Nevo® platform, and the development of audio-video accessories for sale in our retail channel. In addition, IPR&D of $0.2 million related to the SimpleDevices acquisition was expensed in the fourth quarter of 2004.

Selling, general and administrative expenses increased 28% from $33.0 million in 2003 to $42.2 million in 2004. Approximately $2.3 million of this increase was attributable to Sarbanes-Oxley compliance efforts, $1.7 million to appreciation of the Euro relative to the U.S. Dollar, $1.5 million to increased performance-based employee bonuses, $0.9 million to the acquisition of SimpleDevices, $0.8 million to freight costs, and $0.7 million to non-Sarbanes-Oxley related professional services costs.

In 2004, we recorded $0.7 million of interest income compared to $0.6 million for 2003. This increase was due to higher money market rates in Europe, an investment in a certificate of deposit, and a higher average cash balance.

In 2004, other expense, net was $0.5 million as compared to $0.3 million of other income, net for 2003. Approximately $0.4 million of expense was the result of our write-down of an investment in a private company, and $0.2 million of expense resulted from foreign currency exchange losses. The results for 2003 included a foreign currency exchange gain of $0.3 million.

We recorded income tax expense of $4.6 million in 2004 compared to $3.2 million in 2003. Our estimated effective tax rate was 33.6% in 2004, and 34.0% in 2003.

SimpleDevices, Inc. Transaction

We accounted for the acquisition of SimpleDevices by the purchase method of accounting. As a result, we allocated the purchase price of the acquisition based on the fair value of the assets acquired and the liabilities assumed. Significant portions of the SimpleDevices purchase price were identified as intangible assets. We employed valuation techniques which reflected guidance from the American Institute of Certified Public Accountants' Practice Aid Series entitled "Assets Acquired in a Business Combination to Be Used in Research and Development Activities: A Focus on Software, Electronic Devices, and Pharmaceutical Industries" on approaches and procedures to be followed in developing allocations to acquired IPR&D.

The final purchase price allocation included our identification of $240 thousand of IPR&D. This allocation represented the estimated fair value, based upon risk-adjusted cash flows, of SimpleDevices' IPR&D projects. At the date of acquisition, the development of these projects had not yet reached technological feasibility and the IPR&D had no alternative future uses. Accordingly, we expensed these costs as research and development in the quarter ended December 31, 2004. The remaining SimpleDevices purchase premium was allocated to identifiable intangibles, which are being amortized over various periods ranging from 5 to 10 years, as well as goodwill.

SimpleDevices recorded net sales of $0.8 million and a pretax loss of $0.5 million during the period between October 1, 2004 (acquisition date) and December 31, 2004. Sales consisted primarily of engineering services related to the development of hardware utilized by SimpleDevices' customers to run the SimplePlatforms software. In addition, SimpleDevices also generated revenue customizing their software products to customer's specific needs. Sales attributable to SimpleDevices are included in our Business category when we discuss consolidated results. The results of SimpleDevices have been included since the date of acquisition and are described below.

Gross profit was $0.3 million, or 39.5% of sales.

Research and development expenses were $0.2 million, which represents the expensing of in-process technology as a result of the acquisition.

Selling, general and administrative expenses were $0.6 million, which consisted primarily of engineering payroll and benefits costs.

Table of Contents

Liquidity and Capital Resources

(In thousands)

	Year Ended December 31, 2005	Increase (decrease)	Year Ended December 31, 2004	Increase (decrease)	Year Ended December 31, 2003
Cash provided by operating activities	$14,129	$10,138	$ 3,991	$(15,254)	$19,245
Cash (used) provided by investing activities	(4,037)	12,521	(16,558)	(35,740)	19,182
Cash (used) provided by financing activities	(3,246)	1,564	(4,810)	(7,148)	2,338
Effect of exchange rate changes	(5,677)	(7,045)	1,368	1,716	(348)

	December 31, 2005	Increase (decrease)	December 31, 2004
Cash and cash equivalents	$43,641	$1,169	$42,472
Working capital	77,201	2,120	75,081

Cash provided by operating activities

Our principal sources of funds are from operations. Cash provided by operating activities for 2005 was $14.1 million, compared to $4.0 million and $19.2 million during 2004 and 2003, respectively. The increase in cash flow from operations in 2005 compared to 2004 is 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 & accrued expenses increasing by a greater amount in 2005 versus 2004.

There were certain operating factors that affected our liquidity during 2005, which we expect will continue to affect our liquidity in the future. One factor was the extension of payment terms with two of our major customers from 30 to 60 days and 90 to 120 days, respectively. These payment term extensions resulted in an increase in our DSO from 67.5 days at December 31, 2004 to 76.4 days at December 31, 2005. In addition, our liquidity was also affected by a planned increase in our inventory balance. We increased our inventory balances as a result of our strategy to lower the amount of products that are air shipped. During 2005, there was increased demand for advanced function set-top boxes that include features such as DVRs, PVRs and HDTV. This shift drove a corresponding increase in demand from our subscription broadcast customers for our remote controls that interact with these advanced set top boxes. Through the first two quarters of 2005, we did not have enough inventory on hand to meet this demand. As a result, we were forced to air ship a significant amount of orders to maintain our customer service level. In order to alleviate the higher costs related to air shipments, we increased our inventory levels. We believe that the cost savings from shipping via ocean freight versus air will be greater than the additional carrying cost of the increase in inventory. Our net inventory turns were 4.6 turns at December 31, 2005, down from 5.3 turns at December 31, 2004.

Cash (used) provided by investing and financing activities

Cash used for investing activities during 2005 was $4.0 million as compared to $16.6 million and cash provided of $19.2 million during 2004 and 2003, 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 2005, 2004, and 2003 were $3.1 million, $2.7 million, and $2.5 million, respectively. Capital expenditures relate primarily to acquiring product tooling each year. We are currently evaluating our existing and future information system requirements, and may make a significant investment to upgrade our systems in 2006.

On September 15, 2003, we entered into a three-year $15.0 million unsecured revolving credit agreement (the "Credit Facility") with Comerica Bank ("Comerica"). This Credit Facility expires in September 2006, and we are currently involved in negotiations to extend this facility. Under the Credit Facility with Comerica, 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, 2005 using the LIBOR Rate option plus a fixed margin of 1.25% was 5.64%. We pay a commitment fee ranging from zero to a maximum of 1/4 of 1% per year on the unused portion of the credit line depending on the amount of cash investment retained with Comerica during each quarter. Under the terms of this Credit Facility, dividend payments are allowed for up to 100% of the prior fiscal year net income to be paid within 90 days of the prior year-end. We are subject to certain financial covenants related to our net worth, quick ratio, and net income. Amounts available for borrowing under this Credit Facility are reduced by outstanding import letters of credit. As of December 31, 2005, we had no amounts outstanding under this credit facility and no outstanding import letters of credit. Furthermore, as of December 31, 2005, we are in compliance with all financial covenants required by the Credit Facility.

Cash used for financing activities during 2005 was $3.2 million as compared to $4.8 million and cash provided of $2.3 million during 2004 and 2003, respectively. Proceeds from stock option exercises were $2.9 million during 2005, compared to proceeds of $1.9 million and $3.3 million during 2004 and 2003, respectively. We purchased 356,285 shares of our common stock at a cost of $6.1 million during 2005, compared to 494,998 and 84,437 shares at a cost of $6.7 and $1.0 million during 2004 and 2003, respectively. We hold these shares as treasury stock, and they are available for reissue. Presently, except for using a small number of these treasury shares to compensate our outside board members, we have no plans to distribute these shares, although we may change these plans if necessary to fulfill our on-going business objectives. We have authority under the Credit Facility to acquire up to 1.5 million shares of our common stock in market purchases. Between the date the Credit Facility was executed and December 31, 2005, we purchased 897,019 shares of our common stock leaving 602,981 remaining shares authorized for purchase. During 2006 we may continue to purchase shares of our common stock if we believe conditions are favorable.

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, 2005, we had $77.2 million of working capital as compared to $75.1 at December 31, 2004. The increase in working capital during these periods is principally due to higher accounts receivable and inventory balances at December 31, 2005 compared to December 31, 2004.

The following table summarizes our contractual obligations at December 31, 2005 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	$ 5,118	$ 1,455	$ 2,324	$ 912	$ 427
Purchase Obligations	1,503	480	1,023	—	—
Total	$ 6,621	$ 1,935	$ 3,347	$ 912	$ 427

At December 31, 2005, 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.

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 2006; however, there can be no assurance that such funds will be adequate for that purpose.

New Accounting Pronouncements

FASB Staff Position ("FSP") No. 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004," ("FSP 109-1"), gives guidance under SFAS No. 109, "Accounting for Income Taxes," with respect to the provision within the American Jobs Creation Act of 2004 (the "Jobs Act") that provides a tax deduction on qualified production activities. The Jobs Act includes a tax deduction of up to 9 percent (when fully phased-in) of the lesser of (a) "qualified production activities income," as defined in the Jobs Act, or (b) taxable income (after the deduction for the utilization of any net operating loss carryforwards). This tax deduction is limited to 50 percent of W-2 wages paid by the taxpayer. FSP 109-1 states that an enterprise should account for the deduction as a special deduction in accordance with Statement 109. In addition, FSP 109-1 requires that the special deduction be considered by an enterprise in (a) measuring deferred taxes when graduated tax rates are a significant factor and (b) assessing whether a valuation allowance is necessary as required by paragraph 232 of Statement 109. We are currently evaluating the effect that the adoption of FSP 109-1 will have on our consolidated results of operations and financial condition but do not expect it will have a material impact.

FASB Staff Position ("FSP") No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"), provides guidance under SFAS No. 109, "Accounting for Income Taxes," with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on income tax expense and deferred tax liabilities. The Jobs Act was enacted on October 22, 2004. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The undistributed earnings of our foreign subsidiaries are considered to be indefinitely reinvested. Consequently, we do not expect this standard to have a material impact on our consolidated results of operations and financial condition.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs — An Amendment of ARB No. 43, Chapter 4" ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, this new standard requires that items such as idle facility expense, excessive spoilage, double freight, and re-handling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overhead to the cost of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005 and we are required to adopt this standard in the first quarter of 2006, beginning on January 1, 2006. We do not expect this standard to have a material impact on our consolidated results of operations and financial condition.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets — An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions" ("SFAS 153"). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005 and we are required to adopt the standard in the first quarter of 2006, beginning on January 1, 2006. We are currently evaluating the effect that the adoption of SFAS 153 will have on our consolidated results of operations and financial condition but do not expect it will have a material impact.

In December 2004, the FASB issued SFAS 123R, "Share Based Payments." SFAS 123R requires companies to expense the value of stock options and similar awards. This statement is a revision of SFAS 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. SFAS 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award — the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (“SAB 107”) regarding the SEC’s interpretation of SFAS 123R and the valuation of share-based payments for public companies. SFAS 123R, and its related implementation guidance, will significantly change existing accounting practice and will have a material effect on our reported earnings. The pro forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition.

We are required to adopt SFAS 123R in the first quarter of fiscal 2006, beginning January 1, 2006. Under SFAS 123R, we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition methods include modified-prospective and modified-retrospective adoption options. Under the modified-retrospective option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The modified-prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the modified-retrospective method would record compensation expense for all unvested stock options and restricted stock beginning with the first period of adoption.

We plan to apply the modified prospective transition method, which requires that compensation expense be recorded for all unvested stock options and restricted stock beginning the first quarter of 2006. We have chosen the Black-Scholes valuation model to value stock-based compensation utilizing an expected volatility estimated using the historical method. Unamortized compensation expense related to outstanding unvested options, as determined in accordance with FAS 123R, that we expect to record during 2006 is approximately $2.7 million before income taxes. This estimate excludes the effect of additional expense related to new awards that may be granted during 2006.

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections” (“SFAS 154”) which replaces Accounting Principles Board Opinions No. 20 “Accounting Changes” and SFAS No. 3, “Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28.” SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and we are required to adopt the standard in the first quarter of fiscal 2006. We do not expect this standard to have a material impact on our consolidated results of operations and financial condition.

In June 2005, the FASB issued FSP FAS 143-1, “Accounting for Electronic Equipment Waste Obligations” (“FSP 143-1”), which provides guidance on the accounting for certain obligations associated with the Directive on Waste Electrical and Electronic Equipment (the “Directive”), which was adopted by the European Union (“EU”). Under the Directive, the financing of historical waste held by private households is to be borne collectively by producers that are selling in the market during each measurement period (to be defined by each EU-member country). The volume of equipment that qualifies as historical waste that those producers have sold in the market prior to the measurement period is not considered. Producers will be required to contribute proportionately based on their participation in the market (for example, in proportion to their respective shares of the market by type of equipment). However, the exact method to be used to compute the respective proportions to be contributed by producers will be determined by each EU-member country. For commercial users, the waste management obligation for historical equipment (products put on the market on or prior to August 13, 2005) remains with these entities until the equipment is replaced. FSP 143-1 is required to be applied to the later of the first reporting period ending after June 8, 2005 or the date of the Directive’s adoption into law by the applicable EU member countries in which we have significant operations. We are currently evaluating the effect that the adoption of FSP 143-1 will have on our consolidated results of operations and financial condition. Such effects will depend on the respective laws adopted by the EU member countries.

Outlook

Our focus is to build technology and products that make the consumers' 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 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 consumers' lives 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.

During 2006, we will continue to develop new products featuring our Kameleon® interface technology, a display technology that provides ease of use by illuminating only the keys needed to control each entertainment device. 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. We are continuing to seek ways to integrate these platform technologies into other forms and devices. Nevo 2.0® was launched in July of 2004 as a feature on a series of HP's handheld devices, which reached its end of life during the third quarter of 2005. Building on this platform, we used some components of the Nevo 2.0® technology in a new product named "NevoSL"® which we began to ship in the second quarter of 2005. This product is designed for use in the home. In addition, we are working on product line extensions to our One For All® audio/video accessories which include digital antennas, signal boosters, television brackets and A/V cleaning products.

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.

Through SimpleDevices, we continued 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 2006 we look to build relationships with our customers in this category.

In 2006, 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.

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, 2005, we had no borrowings on our credit facility. The interest rate in effect on the credit facility as of December 31, 2005 using the LIBOR Rate option plus a fixed margin of 1.25% was 5.64%. This credit facility will expire in September 2006 and we are currently negotiating to extend this credit facility.

At December 31, 2005 we had wholly owned subsidiaries in The Netherlands, United Kingdom, Germany, France, Argentina and Spain. Sales from these operations are typically denominated in local currencies including Euros, British Pounds and Argentine Pesos, thereby creating 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, 2005, 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, 2005, first quarter net income and cash flows would fluctuate by approximately $0.3 million and $4.2 million, respectively.

Table of Contents

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 sheet of Universal Electronics, Inc. as of December 31, 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended. 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 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 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 audit provides 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, 2005, and the consolidated results of its operations and its consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on 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 have also 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, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2006, expressed an unqualified opinion thereon.

/s/ Grant Thornton LLP

Irvine, California
March 10, 2006

Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated balance sheet as of December 31, 2004 and the related consolidated statements of income, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2004, present fairly, in all material respects, the financial position of Universal Electronics Inc. and its subsidiaries at December 31, 2004, and the results of their operations and their cash flows for each of the two years in the period 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 for each of the two years in the period 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 audits. We conducted our audits 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 audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Orange County, CA
March 16, 2005

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

	December 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 43,641	$ 42,472
Accounts receivable, net	41,861	38,758
Inventories, net	26,708	23,862
Prepaid expenses and other current assets	3,841	2,027
Income tax receivable	903	1,158
Deferred income taxes	2,971	3,216
Total current assets	119,925	111,493
Equipment, furniture and fixtures, net	4,352	3,732
Goodwill	10,431	10,655
Intangible assets, net	6,007	6,550
Other assets	403	2,935
Deferred income taxes	5,201	5,035
Total assets	$146,319	$140,400
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 22,731	$ 17,559
Accrued income taxes	7,551	4,267
Accrued compensation	2,766	5,914
Other accrued expenses	9,676	8,672
Total current liabilities	42,724	36,412
Long term liabilities:		
Deferred income taxes	74	107
Deferred Revenue	229	—
Total liabilities	43,027	36,519
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; 16,963,748 and 16,642,743 shares issued at December 31, 2005 and 2004, respectively	169	167
Paid-in capital	83,220	78,872
Accumulated other comprehensive (loss) income	(5,265)	3,571
Retained earnings	54,994	45,293
Deferred stock-based compensation	(163)	(169)
	132,955	127,734
Less cost of common stock in treasury, 3,420,876 and 3,084,591 shares at December 31, 2005 and 2004, respectively	(29,663)	(23,853)
Total stockholders' equity	103,292	103,881
Total liabilities and stockholders' equity	$146,319	$140,400

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,		
	2005	2004	2003
Net sales	$181,349	$158,380	$120,468
Cost of sales	114,222	96,800	74,168
Gross profit	67,127	61,580	46,300
Research and development expenses	6,580	5,865	4,700
Selling, general and administrative expenses	48,870	42,175	33,026
Operating income	11,677	13,540	8,574
Interest income	845	723	583
Other income (expense), net	2,152	(540)	338
Income before provision for income taxes	14,674	13,723	9,495
Provision for income taxes	4,973	4,609	3,228
Net income	$ 9,701	$ 9,114	$ 6,267
Earnings per share:			
Basic	$ 0.72	$ 0.67	$ 0.46
Diluted	$ 0.69	$ 0.65	$ 0.45
Shares used in computing earnings per share:			
Basic	13,462	13,567	13,703
Diluted	13,992	14,100	14,007

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

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

	Common Stock Issued		Common Stock in Treasury		Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Deferred Stock-Based Compensation	Totals	Comprehensive Income
	Shares	Amount	Shares	Amount						
Balance at December 31, 2002	16,001	$ 160	(2,521)	$ (16,270)	$ 71,322	$ (1,740)	$ 29,912	$ (147)	$ 83,237	
Comprehensive income:										
Net income							6,267			6,267
Currency translation adjustment						2,038				2,038
Total comprehensive income										8,305
Shares issued for retirement plan	33	1			360				361	
Purchase of treasury shares			(85)	(963)					(963)	
Stock options exercised	371	3			3,339				3,342	
Shares issued to Directors			7					105	105	
Stock-based compensation					341				341	
Tax benefit from exercise of non-qualified stock options					443				443	
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)				—	
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)				—	

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

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,		
	2005	2004	2003
Cash provided by operating activities:			
Net income	$ 9,701	$ 9,114	$ 6,267
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,702	3,093	3,358
Provision for doubtful accounts	2,121	161	392
Provision for inventory write-downs	2,735	3,788	2,890
Deferred income taxes	(130)	349	(849)
Tax benefit from exercise of stock options	853	481	443
Shares issued for employee benefit plan	533	431	360
Employee and Director stock-based compensation	406	222	446
Loss on disposal of fixed assets	—	192	—
Write-off of in-process R&D	—	240	—
Write down of investment in private company	3	357	—
Other	—	—	(3)
Changes in operating assets and liabilities (net of acquisition in 2004):			
Accounts receivable	(6,966)	(6,386)	(1,145)
Inventory	(7,128)	(7,311)	(6,230)
Prepaid expenses and other assets	(1,207)	(2,490)	(657)
Accounts payable and accrued expenses	5,416	2,329	11,006
Accrued income and other taxes	4,090	(579)	2,967
Net cash provided by operating activities	14,129	3,991	19,245
Cash (used for) provided by investing activities:			
Acquisition of equipment, furniture and fixtures	(3,137)	(2,657)	(2,470)
Payments for business acquired, net of cash acquired	—	(12,754)	—
Acquisition of intangible assets	(900)	(1,147)	(848)
Purchases of short-term investments	—	—	(22,000)
Sale of short-term investments	—	—	44,500
Net cash (used for) provided by investing activities	(4,037)	(16,558)	19,182
Cash (used for) provided by financing activities:			
Proceeds from stock options exercised	2,864	1,885	3,343
Treasury stock purchased	(6,110)	(6,695)	(963)
Payments on note payable	—	—	(42)
Net cash (used for) provided by financing activities	(3,246)	(4,810)	2,338
Effect of exchange rate changes on cash	(5,677)	1,368	(348)
Net increase (decrease) in cash and cash equivalents	1,169	(16,009)	40,417
Cash and cash equivalents at beginning of year	42,472	58,481	18,064
Cash and cash equivalents at end of year	$43,641	$ 42,472	$ 58,481

Supplemental Cash Flow Information — Income taxes paid were $0.3 million, $4.5 million, and $1.1 million in 2005, 2004 and 2003, respectively.

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

Table of Contents

UNIVERSAL ELECTRONICS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

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 21 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 18 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. Between October 1 and December 31, 2004, we acquired the outstanding shares of SimpleDevices Inc. The results of SimpleDevices' operations have been included in the consolidated financial statements since the date of acquisition (See Note 21 to the consolidated financial statements).

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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, 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 20 to the consolidated financial statements).

We generate service revenue as a result of providing consumer support programs to some of our customers through our call centers. These service revenues are recognized when 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. 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 (loss) income 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 loss of $8.8 million for the twelve months ended December 31, 2005 and a foreign currency translation gain of $3.3 million and $2.0 million for the twelve months ended December 31, 2004 and 2003, respectively. The foreign currency translation loss of $8.8 million for the twelve months 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 twelve months 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. The foreign currency translation gain of $2.0 million for the twelve months ended December 31, 2003 is due to the weakening of the U.S. dollar versus the Euro. The U.S. dollar/Euro spot rate was 1.26 and 1.05 at December 31, 2003 and December 31, 2002, 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 income (expense), 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.

Investments

Included in other assets, as of December 31, 2004, is a cost investment in a private company with a carrying value of $3 thousand. We accounted for this investment, which did not have a readily determinable fair value, using the cost method. Our investment was less than 20%, we were unable to exercise significant influence over the investee, and we were not a primary beneficiary. Under the cost method, investments are carried at cost and adjusted only for other-than-temporary declines in fair value and distributions of earnings or additional investments. We performed an impairment review during the year ended December 31, 2004 and determined that there was an other-than-temporary decline in the value of our investment. Accordingly, in 2004 the value of the investment was written down by $357 thousand to $3 thousand its estimated net realizable value, and the loss was recorded in other income (expense), net. In 2005, we received additional information regarding our investment indicating it was essentially worthless. Accordingly, in 2005, the remaining $3 thousand investment balance was written off and the loss was recorded in other income (expense), net.

Inventories

Inventories consisting of wireless control devices, including universal remote controls, wireless keyboards, antennas, and related component parts, 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 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 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, additional inventory write-downs may be required. Inventory write-downs totaled approximately $2.7 million, $3.8 million and $2.9 million in 2005, 2004, and 2003, respectively.

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 current income.

Estimated useful lives consisted of the following:

Tooling and Equipment	2 — 7 Years
Furniture and Fixtures	5 — 7 Years
Leasehold Improvements	Lesser of lease term or useful life

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 of our 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.

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 the 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 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. 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”. SimpleDevices is the other operating segment and is a “reporting unit” as well.

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, 2005, 2004, and 2003. Based on the analysis performed we determined that each reporting unit’s fair value exceeded its carrying amount, and therefore concluded that there was no indication of an impairment loss.

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. 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.

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 $0.3 million and $0.6 million at December 31, 2005 and 2004, respectively. We capitalized $0, $0.3 million, and $0 for the years ended December 31, 2005, 2004, and 2003, respectively. Amortization expense related to capitalized software costs was $0.3 million, $0.2 million, and $0.1 million for the years ended December 31, 2005, 2004, and 2003, 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 $1.5 million, $1.2 million and $1.1 million, for the years ended December 31, 2005, 2004 and 2003, 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 $6.3 million, $5.0 million and $3.9 million for the years ended December 31, 2005, 2004 and 2003, 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 income (expense), net.

We held foreign currency exchange contracts which resulted in a net pre-tax loss of approximately $409 thousand for the year ended December 31, 2005, and a net pre-tax gain of approximately $5 thousand for the year ended December 31, 2004. We did not enter into any foreign currency exchange contracts during the year ended December 31, 2003. We had two foreign currency exchange contracts outstanding at December 31, 2005, one forward contract with a notional value of $11.0 million, and one option structure known as a participating forward with a notional value of $25.0 million. We had no foreign currency exchange contracts or other derivatives outstanding at December 31, 2004.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Forward Contract

We held a USD/Euro forward contract with a notional value of $11.0 million and a forward rate of $1.1744/Euro as of December 31, 2005, due for settlement on January 20, 2006. We held the Euro position on this contract. The value of this contract was $93 thousand at December 31, 2005. This contract is included in prepaid expenses and other current assets.

Participating Forward

We entered into a USD/Euro participating forward with a 50% participation rate and a notional value of $25.0 million in April 2005. The strike price of the participating forward is $1.2675. The contract expired on December 30, 2005, due for settlement on January 3, 2006. The gain recorded related to this contract was $1.1 million during the year ended December 31, 2005. The value of this contract was approximately $1.1 million at December 31, 2005 and is included in prepaid expenses and other current assets.

Stock-Based Compensation

We account for stock-based employee compensation by applying the intrinsic-value method in accordance with the provisions of Accounting Principles Board Opinion (“APB”) No. 25, “Accounting for Stock Issued to Employees.” Under the intrinsic-value method, 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 stock options with an exercise price equal to the market value of the common stock on the date of grant, and therefore no compensation expense has been recognized related to options.

We have adopted the disclosure requirements of SFAS No. 123, “Accounting for Stock-Based Compensation,” as amended by SFAS No. 148, “Accounting for Stock-Based Compensation — Transition and Disclosure.” 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 (usually the vesting period). The fair value of the options granted is determined at the date of grant using the Black-Scholes option valuation model. If we had elected to recognize compensation cost based on the fair value of the awards at the grant date, net income would have been the pro forma amounts shown below.

(In thousands, except per share amounts)

	Year Ended December 31,		
	2005	2004	2003
Net income			
As reported	$ 9,701	$ 9,114	$ 6,267
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	268	147	294
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,792)	(2,374)	(3,104)
Pro forma	$ 7,177	$ 6,887	$ 3,457
Basic earnings per share:			
As reported	$ 0.72	$ 0.67	$ 0.46
Pro forma	$ 0.53	$ 0.51	$ 0.25
Diluted earnings per share:			
As reported	$ 0.69	$ 0.65	$ 0.45
Pro forma	$ 0.51	$ 0.49	$ 0.25

The fair value of options at the date of grant was estimated using the Black-Scholes model. The following assumptions were used for the grants in 2005, 2004, and 2003, respectively: risk-free interest rate of approximately 3.73%, 3.01%, and 3.00%; expected volatility of approximately 58.35%, 65.51%, and 62.95%; expected life of five years for 2005, 2004 and 2003; and that our common stock will pay no dividends. The per share weighted average grant date fair values of the options granted in 2005, 2004 and 2003 were $9.28, $7.94 and $5.87, respectively.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In December 2004, the FASB issued SFAS 123R, “Share Based Payments.” SFAS 123R requires companies to expense the value of stock options and similar awards. This statement is a revision of SFAS 123, “Accounting for Stock-Based Compensation” and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and its related implementation guidance. SFAS 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award — the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (“SAB 107”) regarding the SEC’s interpretation of SFAS 123R and the valuation of share-based payments for public companies. SFAS 123R, and its related implementation guidance, will significantly change existing accounting practice and will have a material effect on our reported earnings. The pro forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition.

We are required to adopt SFAS 123R in the first quarter of fiscal 2006, beginning January 1, 2006. Under SFAS 123R, we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition methods include modified-prospective and modified-retrospective adoption options. Under the modified-retrospective option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The modified-prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the modified-retrospective method would record compensation expense for all unvested stock options and restricted stock beginning with the first period of adoption.

We plan to apply the modified prospective transition method, which requires that compensation expense be recorded for all unvested stock options and restricted stock beginning the first quarter of 2006. We have chosen the Black-Scholes valuation model to value stock-based compensation utilizing an expected volatility estimated using the historical method. Unamortized compensation expense related to outstanding unvested options, as determined in accordance with FAS 123R, that we expect to record during 2006 is approximately $2.7 million before income taxes. This estimate excludes the effect of additional expense related to new awards that may be granted during 2006.

Reclassifications

Certain prior year amounts have been reclassified to conform to the presentation utilized in the current year ended December 31, 2005.

New Accounting Pronouncements

FASB Staff Position (“FSP”) No. 109-1, “Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004,” (“FSP 109-1”), gives guidance under SFAS No. 109, “Accounting for Income Taxes,” with respect to the provision within the American Jobs Creation Act of 2004 (the “Jobs Act”) that provides a tax deduction on qualified production activities. The Jobs Act includes a tax deduction of up to 9 percent (when fully phased-in) of the lesser of (a) “qualified production activities income,” as defined in the Jobs Act, or (b) taxable income (after the deduction for the utilization of any net operating loss carryforwards). This tax deduction is limited to 50 percent of W-2 wages paid by the taxpayer. FSP 109-1 states that an enterprise should account for the deduction as a special deduction in accordance with Statement 109. In addition, FSP 109-1 requires that the special deduction be considered by an enterprise in (a) measuring deferred taxes when graduated tax rates are a significant factor and (b) assessing whether a valuation allowance is necessary as required by paragraph 232 of Statement 109. We are currently evaluating the effect that the adoption of FSP 109-1 will have on our consolidated results of operations and financial condition but do not expect it will have a material impact.

FASB Staff Position (“FSP”) No. 109-2, “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004” (“FSP 109-2”), provides guidance under SFAS No. 109, “Accounting for Income Taxes,” with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the “Jobs Act”) on income tax expense and deferred tax liabilities. The Jobs Act was enacted on October 22, 2004. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The undistributed earnings of our foreign subsidiaries are considered to be indefinitely reinvested. Consequently, we do not expect this standard to have a material impact on our consolidated results of operations and financial condition.

In November 2004, the FASB issued SFAS No. 151, “Inventory Costs — An Amendment of ARB No. 43, Chapter 4” (“SFAS 151”). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, “Inventory Pricing,” to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, this new standard requires that items such as idle facility expense, excessive spoilage, double freight, and re-handling costs be recognized as current-period charges regardless of whether they meet the criterion of “so abnormal” as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overhead to the cost of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005 and we are required to adopt this standard in the first quarter of 2006, beginning on January 1, 2006. We do not expect this standard to have a material impact on our consolidated results of operations and financial condition.

In December 2004, the FASB issued SFAS No. 153, “Exchanges of Nonmonetary Assets — An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions” (“SFAS 153”). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, “Accounting for Nonmonetary Transactions,” and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005 and we are required to adopt the standard in the first quarter of 2006, beginning on January 1, 2006. We are currently evaluating the effect that the adoption of SFAS 153 will have on our consolidated results of operations and financial condition but do not expect it will have a material impact.

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections” (“SFAS 154”) which replaces Accounting Principles Board Opinions No. 20 “Accounting Changes” and SFAS No. 3, “Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28.” SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and we are required to adopt the standard in the first quarter of fiscal 2006. We do not expect this standard to have a material impact on our consolidated results of operations and financial condition.

In June 2005, the FASB issued FSP FAS 143-1, “Accounting for Electronic Equipment Waste Obligations” (“FSP 143-1”), which provides guidance on the accounting for certain obligations associated with the Directive on Waste Electrical and Electronic Equipment (the “Directive”), which was adopted by the European Union (“EU”). Under the Directive, the financing of historical waste held by private households is to be borne collectively by producers that are selling in the market during each measurement period (to be defined by each EU-member country). The volume of equipment that qualifies as historical waste that those producers have sold in the market prior to the measurement period is not considered. Producers will be required to contribute proportionately based on their participation in the market (for example, in proportion to their respective shares of the market by type of equipment). However, the exact method to be used to compute the respective proportions to be contributed by producers will be determined by each EU-member country. For commercial users, the waste management obligation for historical equipment (products put on the market on or prior to August 13, 2005) remains with these entities until the equipment is replaced. FSP 143-1 is required to be applied to the later of the first reporting period ending after June 8, 2005 or the date of the Directive’s adoption into law by the applicable EU member countries in which we have significant operations. We are currently evaluating the effect that the adoption of FSP 143-1 will have on our consolidated results of operations and financial condition. Such effects will depend on the respective laws adopted by the EU member countries.

Note 3 — Goodwill and Intangible Assets

We are composed of two operating segments (See Note 18 to the consolidated financial statements). 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 the operating segment “Core Business”. SimpleDevices is the other operating segment and is a “reporting unit” as well.

Goodwill for the domestic operations was generated from the acquisition of a remote control company in 1998. Goodwill for international operations resulted from the acquisition of remote control distributors in the UK in 1998, Spain in 1999 and France in 2000. We acquired SimpleDevices in 2004, and of the total purchase price, approximately $7.1 million was allocated to goodwill.

Goodwill information for each reporting unit is listed below:

(in thousands)	December 31, 2005	December 31, 2004
Core Business Segment		
Domestic	$ 1,191	$ 1,191
International*	2,117	2,318
	3,308	3,509
SimpleDevices	7,123	7,146
Total Goodwill	$ 10,431	$ 10,655

* The difference in international goodwill reported at December 31, 2005, as compared to the goodwill reported at December 31, 2004, 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, and 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.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Information regarding our intangible assets is listed below:

(in thousands)	December 31, 2005	December 31, 2004
Carrying amount:		
Distribution rights (10 years)	$ 340	$ 405
Patents (10 years)	4,726	3,945
Trademark and trade names (10 years)	885	979
Developed and core technology (5 years)	2,410	2,410
Capitalized software (2 years)	898	849
Other (5-7 years)	372	470
Total carrying amount	$ 9,631	$ 9,058
Accumulated amortization:		
Distribution rights	$ 45	$ 54
Patents	1,816	1,463
Trademark and trade names	118	75
Developed and core technology	993	429
Capitalized software	559	297
Other	93	190
Total accumulated amortization	$ 3,624	$ 2,508
Net carrying amount:		
Distribution rights	$ 295	$ 351
Patents	2,910	2,482
Trademark and trade names	767	904
Developed and core technology	1,417	1,981
Capitalized software	339	552
Other	279	280
Total net carrying amount	$ 6,007	$ 6,550

Amortization expense for 2005, 2004 and 2003 amounted to approximately $1.1 million, $0.7 million and $0.9 million, respectively. Estimated amortization expense related to our existing intangible assets for each of the five succeeding years ended December 31 is as follows (in thousands):

2006	$ 1,627
2007	1,171
2008	1,086
2009	1,019
2010	684
Thereafter	420
	$ 6,007

Note 4 — Accounts Receivable

Accounts receivable consist of the following at December 31, 2005 and 2004:

(in thousands)	December 31, 2005	December 31, 2004
Trade receivable, gross	$ 45,732	$ 41,546
Sales tax receivable	—	147
Other	—	19
Allowance for doubtful accounts	(2,296)	(1,130)
Allowance for sales returns	(1,575)	(1,824)
Accounts receivable, net	$ 41,861	$ 38,758

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.

The following changes occurred in the allowance for doubtful accounts during the years ended December 31, 2005, 2004 and 2003:

(in thousands) Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Write-offs	Balance at End of Period
Year Ended December 31, 2005	$1,130	$2,121	$ (955)	$2,296
Year Ended December 31, 2004	$2,565	$ 161	$(1,596)	$1,130
Year Ended December 31, 2003	$2,605	$ 392	$ (432)	$2,565

Note 5 — Inventories

Inventory, net consisted of the following at December 31, 2005 and 2004:

(in thousands)	December 31, 2005	December 31, 2004
Components	$ 5,508	$ 8,222
Finished goods	23,474	19,446
Reserve for inventory obsolescence	(2,274)	(3,806)
Inventory, net	$ 26,708	$ 23,862

Note 6 — Equipment, Furniture and Fixtures

Equipment, furniture and fixtures consisted of the following at December 31, 2005 and 2004:

(in thousands)	December 31, 2005	December 31, 2004
Tooling	$ 5,618	$ 5,757
Equipment	5,498	5,429
Furniture and fixtures	1,321	1,280
Leasehold improvements	1,104	1,050
	13,541	13,516
Accumulated depreciation	(9,189)	(9,784)
Equipment, furniture and fixtures, net	$ 4,352	$ 3,732

Depreciation expense was $2.3 million, $2.2 million and $2.4 million for the years ended December 31, 2005, 2004 and 2003, respectively.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 — Revolving Credit Line

On September 15, 2003, we entered into a three-year $15.0 million unsecured revolving credit agreement (the “Credit Facility”) with Comerica Bank (“Comerica”). This Credit Facility expires in September 2006. We are currently involved in negotiations to extend the unsecured revolving credit agreement.

Under the Credit Facility, the interest rate 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, 2005 and 2004, using the LIBOR Rate option plus a fixed margin of 1.25%, was 5.64% and 3.67%, respectively. 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 our cash investment retained with Comerica during each quarter. Under the terms of this 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 year end. We are subject to certain financial covenants related to our net worth, quick ratio, and net income. Amounts available for borrowing under this Credit Facility are reduced by the outstanding balance of import letters of credit. As of December 31, 2005 and 2004, there were no amounts outstanding under this credit facility and no outstanding import letters of credit. Furthermore, as of December 31, 2005 and 2004, we were in compliance with all financial covenants required by the Credit Facility.

We have authority under this credit facility to acquire up to 1.5 million shares of our common stock in market purchases. Between the date the Credit Facility was executed and December 31, 2005, we have purchased 897,019 shares of our common stock leaving 602,981 remaining shares authorized to be repurchased under the Credit Facility.

Note 8 — Other Accrued Expenses

The components of other accrued expenses are listed below (in thousands):

	December 31,	
	2005	2004
Accrued sales discounts/rebates	$ 3,406	$ 2,892
Accrued sales and VAT taxes	1,325	1,300
Accrued freight	1,041	832
Deferred revenue	762	295
Accrued advertising and marketing	566	836
Accrued warranties	414	183
Other	2,162	2,334
	$ 9,676	$ 8,672

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 because of 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 unless the transaction has been approved by two-thirds of the disinterested directors to fair price provisions have been met. Any of these provisions could delay or prevent a change in control.

Treasury Stock

During 2005, 2004 and 2003, we repurchased 356,285, 494,998 and 84,437 shares of common stock, respectively on the open market at a cost of $6.1 million, $6.7 million and $1.0 million, respectively. These shares are 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. In addition, some of these shares will be used by us to compensate the outside directors of the Company. During 2005, 2004 and 2003 shares totaling 20,000, 9,077 and 7,080, respectively, were issued to the outside directors.

Stock Awards

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. 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 and $105,032 in 2004 and 2003, respectively. The stock awards to the directors were fully vested 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. 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 vested 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. 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 in 2005.

Note 11 — Stock Options

1993 Stock Incentive Plan

On January 19, 1993, the 1993 Stock Incentive Plan ("1993 Plan") was approved. Under the 1993 Plan, 400,000 shares of common stock are reserved for the granting of incentive and other stock options to officers, key employees and non-affiliated directors. The 1993 Plan 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.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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.

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 2,500 remaining options available for grant under the 1998 Plan.

1999 Stock Incentive Plan

On January 27, 1999, the 1999 Stock Incentive Plan ("1999 Plan") was approved. Under the 1999 Plan, 630,000 shares of common stock are available for distribution to 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 1,500 remaining options available for grant under the 1999 Plan.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 10,125 remaining options available for grant under the 1999A Plan.

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 37,872 remaining options available for grant under the 2002 Plan.

2003 Stock Incentive Plan

On June 18, 2003, the 2003 Nonqualified Stock Plan ("2003 Plan") was approved. Under the 2003 Plan, 1,000,000 shares of common stock are available for distribution to 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 91,500 remaining options available for grant under the 2003 Plan.

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

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

	2005		2004		2003	
	Shares (000)	Weighted-Average Exercise Price	Shares (000)	Weighted-Average Exercise Price	Shares (000)	Weighted-Average Exercise Price
Outstanding at beginning of year	3,039	$ 12.79	2,662	$ 12.32	2,976	$ 12.00
Granted	631	17.40	702	13.94	119	10.60
Exercised	(290)	9.89	(209)	9.10	(370)	8.96
Expired and/or forfeited	(229)	15.33	(116)	15.95	(63)	13.92
Outstanding at end of year	3,151	$ 13.70	3,039	$ 12.79	2,662	$ 12.32
Options exercisable at year-end	1,943	$ 12.94	1,828	$ 12.58	1,668	$ 11.79

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

Significant option groups outstanding at December 31, 2005 and the related weighted average exercise price and life information are listed below:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding At 12/31/05 (000)	Weighted-Average Remaining Years of Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 12/31/05 (000)	Weighted-Average Exercise Price
$3.19 to $4.97	175	2.58	$ 4.82	175	$ 4.82
5.81 to 7.50	144	2.99	7.20	144	7.20
8.45 to 9.83	476	6.87	8.66	343	8.65
10.92 to 13.39	766	6.23	11.88	454	11.41
14.85 to 22.06	1,590	6.99	17.65	827	18.26
$3.19 to $22.06	3,151	6.36	$ 13.70	1,943	$ 12.94

Note 12 — Significant Customers and Suppliers

Significant Customers

We had sales to one significant customer of $22.2 million, $17.5 million, and $18.1 million representing 12.2%, 11.0%, and 15.0% of our total net sales for the years ended December 31, 2005, 2004 and 2003, respectively. Trade receivables with this customer amounted to $2.1 million and $2.4 million or 5.1% and 5.9% of our total accounts receivable at December 31, 2005 and 2004, respectively. In addition, we had sales to a customer and its sub-contractors that, when combined, totaled $30.0 million, $16.4 million, and $4.6 million, accounting for 16.6%, 10.4%, and 3.8% of net sales for the years ended December 31, 2005, 2004 and 2003, respectively. Trade receivables with this customer and its sub-contractors amounted to $3.3 million and $2.4 million, or 7.8% and 5.7%, of our total accounts receivable at December 31, 2005 and 2004, 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

We purchase components and finished product from multiple sources. During 2005, one source provided over ten percent (10%) of our inventory purchases. Purchases from this significant supplier amounted to $35.5 million, or 33.9%, of total inventory purchases during 2005. Purchases with the same significant supplier amounted to $25.5 million, or 28.2%, of total inventory purchases in 2004. During 2004 there was one additional significant supplier with purchases that amounted to $9.5 million, or 10.5%, of total inventory purchases.

Accounts payable with the aforementioned significant supplier amounted to $6.5 million, representing 28.5% of the total accounts payable at December 31, 2005. Accounts payable for the same supplier amounted to $5.9 million, representing 33.8% of the total accounts payable at December 31, 2004. The additional significant supplier had accounts payable of $2.0 million or 11.6% of the total accounts payable at December 31, 2004.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. Rental expense for our operating leases was $1.7 million, $1.8 million, and $1.6 million for the years ended December 31, 2005, 2004 and 2003, respectively.

The following table summarizes future minimum non-cancelable operating lease payments with initial terms greater than one year at December 31, 2005:

(in thousands)	Amount
Year ending December 31:	
2006	$ 1,455
2007	1,377
2008	947
2009	483
2010	428
Thereafter	428
Total lease commitments	$ 5,118

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 the years ended December 31, 2005, 2004 and 2003 amounted to $0.6 million, $0.4 million and $0.4 million, respectively.

Note 15 — Other Income (Expense), net

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

	Year Ended December 31,		
(in thousands)	2005	2004	2003
Net gain (loss) on foreign currency exchange transactions	$ 2,107	$ (152)	$ 344
Write-down of investment	(3)	(357)	—
Other income (loss)	48	(31)	(6)
Other income (expense), net	$ 2,152	$ (540)	$ 338

Note 16 — Income Taxes

In 2005, 2004, and 2003, pre-tax income was attributed to the following jurisdictions:

	Year Ended December 31,		
(in thousands)	2005	2004	2003
Domestic operations	$ 6,206	$ 4,488	$ 6,002
Foreign operations	8,468	9,235	3,493
Total	$ 14,674	$ 13,723	$ 9,495

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, 2005	2004	2003
Current tax expense/(Benefit):			
U.S. federal	$ 1,382	$ 2,572	$ 2,438
State and local	280	216	157
Foreign	3,311	1,515	1,482
Total current	4,973	4,303	4,077
Deferred tax expense/(Benefit):			
U.S. federal	460	564	(715)
State and local	(363)	(200)	(46)
Foreign	(97)	(58)	(88)
Total deferred	—	306	(849)
Total provision	$ 4,973	$ 4,609	$ 3,228

Net deferred tax assets were comprised of the following at December 31:

(in thousands)	2005	2004
Deferred tax assets:		
Inventory reserves	$ 514	$ 1,003
Allowance for doubtful accounts	59	68
Capitalized research costs	885	1,287
Capitalized inventory costs	727	574
Net operating losses	4,798	5,051
Amortization of intangibles	645	686
Accrued liabilities	837	511
Income tax credits	748	265
Depreciation	338	24
Other	285	184
Total deferred tax assets	$ 9,836	$ 9,653
Deferred tax liability:		
Depreciation	—	(8)
Intangibles assets	(925)	(1,068)
Other	(193)	—
Total deferred tax liabilities	(1,118)	(1,076)
Net deferred tax assets before valuation allowance	8,718	8,577
Less: Valuation allowance	(620)	(536)
Net deferred tax assets	$ 8,098	$ 8,041

The deferred tax valuation allowance increased $0.1 million, $0.4 million, and $0.03 million during 2005, 2004, and 2003, 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)	2005	2004	2003
Tax provision at statutory U.S. rate	$ 4,989	$ 4,666	$ 3,228
Increase (decrease) in tax provision resulting from:			
State and local taxes, net	(83)	236	80
Foreign tax rate differential	335	184	172
Nondeductible items	50	34	29
In-process R&D	—	82	—
Federal valuation allowance	1	122	—
Federal research and development credits	(601)	(521)	(282)
Other	282	(194)	1
Tax provision	$ 4,973	$ 4,609	$ 3,228

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, 2005, we had federal and state Research and Experimentation (“R&E”) income tax credit carryforwards of approximately $0.1 million and $0.6 million, respectively. The federal R&E income tax credits expire in 2025. The state R&E income tax credits do not have an expiration date.

At December 31, 2005, we had federal, state and foreign net operating losses of approximately $9.9 million, $9.5 million and $2.6 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 $1.1 million of the foreign net operating losses begin to expire in 2007, approximately $.2 million expire in 2020 and the remaining $1.3 million of foreign net operating losses have an unlimited carryforward. At December 31, 2005, 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 $10.0 million and $9.5 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, 2005, 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, 2005 (See Note 2 to the consolidated financial statements).

During the years ended December 31, 2005, 2004, and 2003 we recognized a credit to additional paid-in capital and a reduction to income taxes payable of $0.9 million, $0.5 million, and $0.4 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 2005, the Internal Revenue Service began an audit of the December 31, 2002 and 2003 tax years. We are also currently under appeals with the California Franchise Tax Board ("FTB") for the years ended December 31, 1999 and 2000. In addition, the passing of the statute of limitations for the state tax years 1997 and 1998 eliminated the need for certain previously recorded tax reserves. Accordingly, we reversed the related previously accrued taxes, reducing the tax provision for 2005 by approximately $0.1 million.

Note 17 – Earnings Per Share

Basic earnings per share are 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, 2005, 2004 and 2003, approximately 999,506, 988,250 and 1,031,125 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, 2005, 2004 and 2003 were calculated as follows (in thousands, except per-share amounts):

	Year Ended		
	December 31, 2005	December 31, 2004	December 31, 2003
BASIC			
Net Income	$ 9,701	$ 9,114	$ 6,267
Weighted-average common shares outstanding	13,462	13,567	13,703
Basic earnings per share	$ 0.72	$ 0.67	$ 0.46
DILUTED			
Net Income	$ 9,701	$ 9,114	$ 6,267
Weighted-average common shares outstanding for basic	13,462	13,567	13,703
Dilutive effect of stock options and restricted stock	530	533	304
Weighted-average common shares outstanding on a diluted basis	13,992	14,100	14,007
Diluted earnings per share	$ 0.69	$ 0.65	$ 0.45

Note 18 — Business Segments and Foreign Operations

Industry Segments

We have two reportable segments, Core Business and SimpleDevices. In our Core Business segment 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. The various channels of distribution utilized by our Core Business segment include international retail, private label, OEMs, cable and satellite service providers and companies in the computing industry. SimpleDevices, based in San Mateo, California, develops 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.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Factors Used to Identify Reportable Segments

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.

During the fourth quarter of 2004 we purchased SimpleDevices, Inc. 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 are achieved.

As a result of the performance based incentive and other factors, management began to review SimpleDevices' discrete operating results on a regular basis. This review and factors including product differences, current management structure, distribution methods, and economic characteristics, supported our conclusion as of December 31, 2005 and December 31, 2004 that SimpleDevices is a reportable segment in accordance with SFAS 131. In the future, as the integration of SimpleDevices' operations continues and the performance based incentive expires, we may or may not determine that SimpleDevices continues to be a reportable segment in accordance with SFAS 131.

Measurement of Profit or Loss of Segment Assets

The disaggregated financial results of our reportable segments have been prepared using a management approach, which is consistent with the basis and manner in which we internally disaggregate financial information for the purposes of making internal operating and resource allocation decisions. The accounting policies of our reportable segments are the same as those described in the summary of significant accounting policies except that the segment information does not include a full allocation of corporate overhead costs between the SimpleDevices and Core Business segments.

Segment Income (Loss) and Assets

	Year Ended December 31, 2005		
(in thousands)	Core Business	SimpleDevices	Total
Net sales	$179,816	$ 1,533	$181,349
Depreciation and amortization	3,204	498	3,702
Research and development	6,158	422	6,580
Interest income	845	—	845
Income before income taxes	18,628	(3,954)	14,674
Assets	$144,566	$ 1,753	$146,319

	Year Ended December 31, 2004		
	Core Business	SimpleDevices (1)	Total
Net sales	$157,549	$ 831	$158,380
Depreciation and amortization	2,969	124	3,093
Research and development	5,625	240	5,865
Interest income	723	—	723
Income before income taxes	14,273	(550)	13,723
Assets	$134,589	$5,811	$140,400

(1): The financial results of SimpleDevices for the year ended December 31, 2004 contain only the results of operations since the date of acquisition. The segmented results of operations for the year ended December 31, 2003 are not presented here as the results of the Core Business segment for 2003 correspond to the consolidated income reported in the consolidated financial statements included in this report.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Geographic Information

Our sales to external customers and long-lived tangible assets by geographic area are presented below (in thousands):

	Year ended December 31, 2005	2004	2003
Net Sales			
United States	$ 95,252	$ 75,121	$ 65,891
International:			
United Kingdom	22,977	26,395	18,105
Asia	18,773	9,068	5,249
Spain	6,484	10,535	5,237
Germany	7,357	8,620	6,679
France	5,852	7,021	4,911
Switzerland	4,689	3,194	755
South Africa	3,685	1,793	798
All Other	16,280	16,633	12,843
Total International	86,097	83,259	54,577
Total Net Sales	$181,349	$158,380	$120,468

	December 31, 2005	2004	2003
Long-Lived Assets			
United States	$ 3,137	$ 2,956	$ 3,002
All Other Countries	1,618	3,711	1,917
	$ 4,755	$ 6,667	$ 4,919

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

Note 19 – Related Party Transactions

In August 2001, we entered into a 30-month consulting agreement with one of our former directors, under which the former director received $600,000 for services rendered. Amounts paid under this agreement were $200,000 for the year ended December 31, 2003. The agreement expired in February 2004.

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 other assets on our balance sheet at December 31, 2005 and 2004.

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 20 — 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 we sell the related products. 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, 2005	$183	$443	$(212)	$414
Year Ended December 31, 2004	$ 95	$285	$(197)	$183
Year Ended December 31, 2003	$ 95	$181	$(181)	$ 95

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 claims between the distributor and two of our other subsidiaries, namely, Universal Electronics BV ("UEBV") and One For All Iberia SL, such that the proceeding covers all claims and counterclaims between the various parties and further agreed that before any judgments are to be paid, all matters of conflict between the various parties would be concluded. These additional claims involve nonpayment for products and damages resulting from the wrongful termination of agency agreements. On March 15, 2005, the court in one of the litigation matters brought by the distributor against one of the subsidiaries, rendered judgment against the subsidiary and awarded damages and costs to the distributor in the amount of approximately $102,000. The subsidiary has appealed this decision and asked the court to stay the execution of the judgment as it is part of the overall litigation matters between the various parties. In February 2006, the court denied our subsidiary's request and it has filed an appeal seeking to stay this judgment. The amount of this judgment was charged to operations during the second quarter of 2005 and is recorded as a liability as of December 31, 2005. With respect to the remaining matters before the court, the parties met with the court appointed expert in February 2006, and we expect the expert to finalize and file his pre-trial report to the court, the filing of which is expected to occur during the quarter ending June 30, 2006. We will continue to seek a settlement of all of these matters, but if settlement is not possible, each of the subsidiaries will continue to disagree with the allegations of the former distributor and will vigorously defended itself against the counterclaims.

In 2003, an ex-employee of one of our subsidiaries brought an action against our subsidiary seeking damages in the amount of approximately $191,000 for wrongful termination. The subsidiary disagreed with these allegations and vigorously defended itself against this claim. In January 2005, judgment was rendered for the ex-employee awarding him approximately $26,000 in damages. In March 2005, our subsidiary paid this judgment. In February 2005, the ex-employee filed a notice of appeal, which has been scheduled for hearing in late 2006. It is our intention to seek a settlement of this matter with the ex-employee. If a settlement is not possible, our subsidiary will again vigorously defend itself.

On January 7, 2004, James D. Lyon, Trustee for the bankruptcy estate of Computrex, Inc. ("Trustee") filed an action against us alleging that we received preferential treatment in connection with certain payments amounting to $528,000 made on our behalf by Computrex to our freight carriers. In addition to seeking a return of the alleged preferential payments, the Trustee has asked for costs, and pre- and post-judgment interest. We have not yet answered this complaint and will not need to do so as this action is currently in abeyance while the Trustee appeals an adverse ruling against it in another matter having facts similar to those in the Trustee's action against us. In April 2005, an appellate court affirmed the ruling against the Trustee in this other matter. If and when we answer, we intend to deny all of the material allegations made against us and defend this matter vigorously and we will continue to pursue the proof of claim we filed in May 2002 in the amount of $106,000 with the Bankruptcy Court against the bankruptcy estate of Computrex seeking a return of freight charges paid to Computrex for which it failed to remit to our freight carriers.

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, except for the employment matter of which we intend to seek settlement, we intend to vigorously defend ourselves against them. As of December 31, 2004, because incurring a loss relating to the employment matter was both probable and estimable, a loss contingency of $191,000 was recorded and still remains on the books at December 31, 2005.

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 21 – 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 transaction also includes a potential performance-based payment of unregistered common stock, if certain future financial objectives are realized, which has not been reflected as part of the purchase price as of December 31, 2005 since it is not probable such objectives will be achieved. The results of SimpleDevices' operations have been included in the consolidated financial statements since the date of acquisition.

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 has been 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, 2005 the probability that these performance targets will be met is remote. As such, the performance-based payment has not been reflected as part of the purchase price as of December 31, 2005.

Note 22 – Quarterly Financial Data (Unaudited)
(In thousands, except per share amounts)

Summarized quarterly financial data for the years ended December 31, 2005 and 2004 is presented below:

	2005			
	March 31,	June 30, (2)	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	1,856	1,545	2,777	3,523
Earnings per share (1):				
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

	2004			
	March 31,	June 30,	September 30,	December 31, (3)
Net sales	$32,611	$34,011	$ 40,047	$ 51,711
Gross profit	12,664	12,879	15,793	20,244
Operating income	2,080	2,417	3,296	5,747
Net income	1,778	1,688	1,928	3,720
Earnings per share (1):				
Basic	$ 0.13	$ 0.13	$ 0.14	$ 0.27
Diluted	$ 0.13	$ 0.12	$ 0.14	$ 0.26
Shares used in computing earnings per share:				
Basic	13,715	13,483	13,496	13,580
Diluted	14,052	13,889	14,029	14,206

(1) 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.

(2) 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.

(3) The comparability of the financial data for the quarter ended December 31, 2004 is affected by the October 1, 2004 acquisition of SimpleDevices, Inc. and the inclusion of their financial results.

UNIVERSAL ELECTRONICS INC.
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

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, 2005	$3,806	$2,735	$(4,267)	$2,274
Year Ended December 31, 2004	$3,026	$3,788	$(3,008)	$3,806
Year Ended December 31, 2003	$1,275	$2,890	$(1,139)	$3,026

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, 2005	$536	$ 84	$—	$620
Year Ended December 31, 2004	$137	$399	$—	$536
Year Ended December 31, 2003	$109	$ 28	$—	$137

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). 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. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

Management’s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 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 and Chief Accounting Officer (principal financial officer) completed their evaluation.

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

Board of Directors and Shareholders
Universal Electronics, Inc.

We have audited management's assessment, included in the accompanying Universal Electronics, Inc. Management's Report on Internal Control Over Financial Reporting, that Universal Electronics, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issues 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 opinions.

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, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, Universal Electronics, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Universal Electronics, Inc. as of December 31, 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended, and our report dated March 10, 2006 expressed an unqualified opinion thereon.

/s/ Grant Thornton LLP

Irvine, California
March 10, 2006

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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 2006 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 2006 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.

ITEM 11. EXECUTIVE COMPENSATION

Information required by Item 402 of Regulation S-K will be contained in and is hereby incorporated by reference to our definitive Proxy Statement for our 2006 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 2006 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, 2005:

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	1,708,326	$13.76	99,750
Equity compensation plans not approved by security holders	1,442,224	13.63	47,997
Total	**3,150,550**	**$13.70**	**147,747**

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by Item 404 of Regulation S-K will be contained in and is hereby incorporated by reference to our definitive Proxy Statement for our 2006 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 2006 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 75 to Form 10-K.

Table of Contents

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, 2006.

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, 2006, 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
Robert P. Lilleness *President and Chief Operating Officer*	/s/ Robert P. Lilleness
Bryan M. Hackworth *Chief Accounting Officer* (Principal Financial and Accounting Officer)	/s/ Bryan M. Hackworth
Satjiv S. Chahil *Director*	/s/ Satjiv S. Chahil
Bruce A. Henderson *Director and Audit Committee Member*	/s/ Bruce A. Henderson
William C. Mulligan *Director and Audit Committee Member*	/s/ William C. Mulligan
J. C. Sparkman *Director and Audit Committee Member*	/s/ J.C. Sparkman

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))

Exhibit Number	Document Description
*10.7	Form of Salary Continuation Agreement by and between Universal Electronics Inc. and certain employees (Incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, filed on March 30, 1998 (File No. 0-21044))
*10.8	Form of Amendment to Salary Continuation Agreement by and between Universal Electronics Inc. and certain employees (Incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, filed on March 30, 1998 (File No. 0-21044))
*10.9	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	Revolving Loan and Security Agreement dated October 2, 1998 by and between Universal Electronics Inc. and Bank of America National Trust and Savings Association (Incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
10.12	Copy of Revolving Note dated October 2, 1998 by and between Universal Electronics Inc. and Bank of America National Trust and Savings Association (Incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
10.13	Patent and Trademark Collateral Assignment dated October 2, 1998 by and between Universal Electronics Inc. and Bank of America National Trust and Savings Association (Incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))
*10.14	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))
*10.15	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. 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))
*10.16	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))
*10.17	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))

Exhibit Number	Document Description
*10.18	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))
*10.19	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
*10.20	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
*10.21	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))
10.22	Credit Agreement dated September 15, 2003 between Comerica Bank and Universal Electronics Inc. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 filed on November 14, 2003 (File No. 0-21044))
10.23	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))
*10.24	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))
*10.25	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))
*10.26	Form of First Amendment to Executive Officer Employment Agreement dated October 21, 2005 by and between Universal Electronics Inc. and Paul D. Arling (filed herewith)
10.27	Third Amendment to Lease dated December 1, 2005 between Warland Investments Company and Universal Electronics Inc. (filed herewith)
*10.28	Form of Change in Control and Salary Continuation Agreement Dated March 3, 2006 between Universal Electronics Inc. and Robert P. Lilleness (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))

Exhibit Number	Document Description
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 Accounting Officer (principal financial officer) (filed herewith)
32.1	Section 1350 Certifications of the Chief Executive Officer (filed herewith)
32.2	Section 1350 Certifications of the Chief Accounting Officer (principal financial officer) (filed herewith)

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

Exhibit 10.26

FIRST AMENDMENT TO
EXECUTIVE OFFICER
EMPLOYMENT AGREEMENT

THIS FIRST AMENDMENT TO EXECUTIVE OFFICER EMPLOYMENT AGREEMENT (the "First Amendment") is made and entered into this 21st day of October, 2005 by and between UNIVERSAL ELECTRONICS INC. (the "Employer") and PAUL D. ARLING ("Executive").

RECITALS:

WHEREAS, the Employer and Executive are parties to that certain Executive Officer Employment Agreement dated April 23, 2003; and

WHEREAS, the Executive Officer Employment Agreement is set to expire on April 30, 2006; and

WHEREAS, the parties wish to (i) extend the expiration date of the Executive Officer Employment Agreement to April 30, 2009, and (ii) amend Paragraph 4 of the Executive Officer Employment Agreement by providing for a bonus to be paid to Executive in accordance with certain terms and conditions as set forth within this First Amendment.

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

1. Subparagraph 3(a) of the Executive Officer Employment Agreement is hereby amended to provide that the Executive Officer Employment Agreement shall continue through the end of business on April 30, 2009 (the "Extended Term").

2. Paragraph 4 of the Executive Officer Employment Agreement is hereby amended by adding new subparagraph (k) as follows:

> " (k). STAY BONUS. A bonus in the amount of $200,000 shall be paid to Executive on the earlier of (i) December 15, 2007 (the "Stay Bonus Pay Date") but only so long as Executive is an employee of Employer on the Stay Bonus Pay Date, (ii) the effective date that Executive ceases to be an employee of Employer due to Executive's election to terminate his employment with Employer for Good Reason as provided in subparagraph 3(b)(ii) of the Executive Officer Employment Agreement."

3. Except as specifically modified as set forth in this First Amendment, the Executive Officer Employment Agreement shall be and remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed the Agreement as of this 21st day of October, 2005.

Signed and acknowledged in the presence of:	UNIVERSAL ELECTRONICS INC.
	By:
- ---------------------------	---------------------------
	JC Sparkman, Chairman of the Compensation Committee of the UEI Board of the Directors
	PAUL D. ARLING
- ---------------------------	-------------------------------
	Signature

Exhibit 10.27

WARLAND INVESTMENTS COMPANY 1299 OCEAN AVENUE, SUITE 300
SANTA MONICA, CALIFORNIA 90401 (310) 395-7811 FAX: (310) 395-7706

December 22, 2005

Myron Galchutt
Newmark of Southern California
18400 Von Karman Avenue, Suite 130
Irvine, CA 92612

RE: UNIVERSAL ELECTRONICS LEASE EXTENSION
6101 GATEWAY DRIVE, CYPRESS, CALIFORNIA

Dear Myron:

Enclose for forwarding to Universal Electronics are one fully executed original of the Third Amendment to Lease, providing for the six-year lease extension commencing January 1, 2006, and one fully executed original of the Parking License Agreement between Universal and Warland.

Very truly yours,

/s/ Peggy A. Kratka

Peggy A. Kratka
Senior Project Manager

Enclosures
Cc w/enclosures: Henry Stiepel, Esq. (duplicate original)
Brian DeRevere

THIRD AMENDMENT TO LEASE

THIS THIRD AMENDMENT TO LEASE ("AMENDMENT") is entered into as of December 1, 2005, between WARLAND INVESTMENTS COMPANY, a California limited partnership ("LANDLORD") and UNIVERSAL ELECTRONICS INC., a Delaware corporation ("TENANT"), with reference to the following:

RECITALS:

A. Landlord and Tenant previously entered into that certain Lease dated November 1, 1997, as amended by that certain First Amendment to Lease dated February 21, 2001 and that certain Second Amendment to Lease dated May 27, 2003 (collectively, the "LEASE") pursuant to which Tenant currently leases from Landlord certain premise commonly known as 6101 Gateway Drive, Cypress, California (the "PREMISES"). Capitalized terms not otherwise defined herein shall have the same meaning as given to them in the Lease.

B. Landlord and Tenant now desire to amend the Lease to (i) increase the size of the Premises by approximately 3,312 square feet, (ii) extend the Lease Term, (iii) set forth the Basic Monthly Rent payable during such extended Lease Term, and (iv) otherwise amend the Lease as more particularly set forth below.

NOW, THEREFORE, in consideration of the foregoing recitals and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree that the Lease shall be modified and/or supplemented as follows:

1. EXPANSION OF THE PREMISES. As of the Extension Term Commencement Date (as hereinafter defined) the Premises shall consist for all purposes of 34,080 square feet as depicted on the plot plan ("PLOT PLAN") attached hereto as Exhibit "A". Exhibit "A" to the Lease is hereby deleted in its entirety and replaced with Exhibit "A" to this Amendment. The square footage of the Premises for all purposes under the Lease shall be deemed to be 34,080 square feet based upon industrial drip line measurement, whether the actual square footage is greater than or less than 34,080 square feet,

2. EXTENDED TERM. The Lease Term is hereby extended for an additional period of seventy-three (73) months commencing on January 1, 2006 ("EXTENDED TERM COMMENCEMENT DATE") and expiring on January 31, 2012 (the "EXTENDED TERM").

3. RENT. The Basic Monthly Rent for the Extended Term shall be as follows:

Period	Basic Monthly Rent
1/1/06-12/31/07	$28,286.40 ($.83 per square foot), triple net
1/1/08-12/31/09	$29,990.40 ($.88 per square foot), triple net
1/1/10-1/31/12	$31,694.40 ($.93 per square foot), triple net

Provided that Tenant is not then in Default or an event has occurred which with the passage of time would constitute a Default, the Base Monthly Rent for the month of January 2006 shall abate (the "ABATED RENT PERIOD"). During the Abated Rent Period, Tenant shall pay Additional Rent and all other amounts due under this Lease.

4. PREMISES WORK. Subject to the terms and conditions of the Construction Agreement attached hereto as Exhibit "B", Tenant shall have the right to perform certain leasehold improvement work within the Premises.

5. CONDITION OF PREMISES. Tenant confirms that it is currently in possession of the Premises and accepts the Premises and any portion thereof in its now-current and future "AS IS" condition, with all faults and defects, whether latent or patent.

6. PARKING SPACES. Paragraph 2(d) of the Fundamental Lease Provisions of the Lease is hereby amended to increase the number of Premises Parking Spaces from 120 to 123. Further, subject to the terms and conditions of the Parking License Agreement in the form of attached Exhibit "C" and executed concurrently with this Amendment (the "PARKING LICENSE AGREEMENT"), Tenant shall have the right to use the additional thirty (30) Parking Spaces on the Parking Parcel (as those terms are defined in the Parking License Agreement).

7. OPTION TO EXTEND TERM. Tenant shall have one (1) five (5)- year option (the "OPTION") to extend the Extended Term (the "EXTENDED TERM") on the same terms and conditions as set forth in the Lease, except that the Basic Monthly Rent shall be adjusted on the first day of the Extended Term to ninety-five percent (95%) of the "FAIR MARKET RENT" for the Premises then in effect established pursuant to the attached Exhibit "D". Thereafter, the Basic Monthly Rent shall be increased (but never decreased) on the first day of every twenty-fifth (25th) month of the Extended Term ("ADJUSTMENT DATE") in accordance with the percentage increases, if any, in the Consumer Price Index for All Urban Consumers (Los Angeles/Anaheim/Riverside Area; Base 1982-84=100) ("INDEX"), as published by the United States Department of Labor, Bureau of Labor Statistics. For the first adjustment of Basic Monthly Rent pursuant to this Section, the Index in effect four (4) months before the Extended Term Commencement Date shall be compared to the Index in effect on the fourth (4) month before that Adjustment Date, and the Basic Monthly Rent shall be increased by such percentage increase, if any, between such indices. On the second Adjustment date, the Index in effect four (4) months before the first Adjustment Date shall be compared to the Index in effect on the fourth (4) month before that second Adjustment Date, and the Basic Monthly Rent shall be increased by such percentage increase, if any, between such indices. However, on each such Adjustment Date, the Basic Monthly Rent shall be increased by at least three percent (3%) compounded annually for the immediately preceding twenty-four (24) months, but in no event shall the Basic Monthly Rent be increased on each such Adjustment Date by more than six percent (6%) compounded annually for the immediately preceding twenty-four (24) months. The Option shall be exercised only by written unconditional notice received by Landlord at least nine (9) months before expiration of the Extended Term. If Landlord does not timely receive Tenant's written unconditional notice of the exercise of art Option in accordance with the preceding sentence, the Option, shall immediately lapse, and there shall be no further right to extend the Term. Notwithstanding the foregoing, in the event (i) Tenant is in monetary or material non-monetary default on the date the Option Notice is given or (ii) should Landlord have given to Tenant two (2) or more notices regarding Tenant's failure to pay rent when due during the Extended Term or (iii) should Tenant be in monetary or material non-monetary default on the date the Extended Term expires, then in each event Tenant's Option shall be

deemed automatically terminated. The Option is personal to Tenant and its affiliates (as defined in Section 9.8 of the Lease) and, except as set forth in Section 9.8 of the Lease, may not be assigned to any third party. Pursuant to the First Amendment to Lease dated February 21, 2001 (the "FIRST AMENDMENT") and thereafter pursuant to the Second Amendment to Lease dated May 27, 2003, Tenant extended the Lease Term in lieu of the exercise of the Option (as defined in Section 13.1 of the Lease); accordingly, Tenant acknowledges that the First Amendment terminated Tenant's rights under Section 13.1 of the Lease, and Tenant's only existing option to extend the Lease Term is as set forth in this Section 7.

8. BROKERS. Tenant represents and warrants to Landlord that except for Newmark of Southern California, it has not dealt with any real estate broker, agent or finder in connection with this Amendment or its negotiations with respect to the Premises or any portion thereof. Tenant shall indemnify, defend (with counsel satisfactory to Landlord), protect and hold Landlord harmless from any and all costs, expenses, claims, damages, losses or liabilities (including costs of suit and reasonable attorneys' fees) resulting from any breach by Tenant of the foregoing representation, including, without limitation, any claims that may be asserted by any broker, agent or finder.

9. GENERAL.

(a) Security Deposit. Tenant expressly waives the benefits of any statute now or hereafter in effect which would prevent Landlord from applying all or any portion of the Security Deposit to offset any future Rent owing to Landlord at the termination of this Lease prior to the Expiration Date, including, without limitation, California Civil Code Section 1950.7.

(b) Effect of Amendment; Ratification. Except to the extent the Lease is modified by this Amendment, the terms and provisions of the Lease shall remain unmodified and in full force and effect. In the event of conflict between the terms of the Lease and the terms of this Amendment, the terms of this Amendment shall prevail.

(c) Counterparts. If this Amendment is executed in counterparts, each counterpart shall be deemed an original.

(d) Governing Law. This Amendment and any enforcement of the agreements and modifications set forth above shall be governed by and construed in accordance with the laws of the State of California.

(e) Exhibits. All exhibits attached hereto are hereby incorporated herein by this reference.

(f) Attorneys' Fees. In the event of any controversy, claim or dispute between the parties affecting or relating to the purposes or subject matter of this Amendment, the prevailing party shall be entitled to recover from the non-prevailing party all of its reasonable expenses, including attorneys' and accountants' fees.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Amendment as of the date first written above.

"TENANT" UNIVERSAL ELECTRONICS INC.,
a Delaware corporation

By: /s/ PAUL ARLING

Name: PAUL ARLING
Title: CHAIRMAN & CEO

By:

Name:

Title:

"LANDLORD" WARLAND INVESTMENTS COMPANY,
a California limited partnership

By: /s/ CARL W. ROBERTSON

Carl W. Robertson,
Co-Managing Director

By: /s/ JOHN C. LAW

John C. Law,
Co-Managing Director

EXHIBIT "A"

DEPICTION OF THE PREMISES

EXHIBIT "A"

(TRACT NO. 467 DRAWING)

EXHIBIT "B"

CONSTRUCTION LETTER

Tenant and Landlord are executing simultaneously with this Construction Agreement ("Agreement") that certain Third Amendment to Lease (the "LEASE") covering the Premises described 6101 Gateway Drive, Cypress, California. This Agreement is incorporated into and made a part of the Amendment. All capitalized terms herein have the same definition as in the Lease. In consideration of the mutual covenants contained in the Lease and for other valuable consideration, Tenant and Landlord agree that the Premises shall be improved as set forth below.

1. Tenant's Construction Obligations. Tenant, at its sole cost, shall employ a fully licensed and bonded general contractor approved by Landlord ("CONTRACTOR"), to construct all tenant improvements within the Premises in strict accordance with the plans and specifications to be approved by Landlord as set forth below (the "TENANT IMPROVEMENTS"). Landlord shall have no responsibility for construction of the Tenant Improvements, and Tenant will remedy, at Tenant's expense, and will be responsible for any and all defects in all such construction that may appear during or after the completion thereof. Tenant shall promptly reimburse Landlord as additional rent for any extra expense incurred by Landlord by reason of faulty work done by Tenant or Tenant's contractors or by reason of inadequate cleanup.

2. Approval of Plans and Specifications.

Tenant shall prepare and deliver to Landlord for Landlord's review and approval three (3) sets, plus one (1) reproducible set, of all of the final working drawings for the Tenant Improvements ("TI DRAWINGS") which shall cover the work generally described on attached Schedule 1. Upon completion of Landlord's review, Tenant shall have five (5) days in which to resubmit, if necessary, revised TI Drawings to Landlord for Landlord's review and approval. Landlord shall not have any obligation to approve any TI Drawings that (i) do not conform to applicable statutes, ordinances or regulations or is disapproved by any governmental agency, (ii) requires building service beyond the level normally provided to other tenants in the Business Center, (iii) overload the floor, (iv) may, as determined by Landlord, in Landlord's sole and absolute discretion, adversely impact the structural integrity of the Building or any of the Building systems, (v) can be seen from the exterior of the Building, (vi) increase any of Landlord's costs, or (vii) are, in Landlord's sole opinion, of a nature or quality that is inconsistent with the objectives of Landlord for the Business Center. If Tenant and Landlord are unable to agree on the TI Drawings, such dispute shall be resolved by the Landlord, DeRevere & Associates, whose determination shall be final. Following such approval of the TI Drawings, both parties shall sign and deliver to each other duplicate copies of the TI Drawings. Thereafter, changes may be made only in strict accordance with the construction contract for the Tenant Improvements, and Landlord shall have approval rights therein to any material changes. The term "APPROVED DRAWINGS" shall include such changes.

Upon receipt of a request by Tenant to approve the TI Drawings for any part thereof, Landlord shall have ten (10) business days following receipt of the request together with all reasonable supporting documentation in which to review in good faith the submitted drawings and other documents to determine whether they meet the standards for the Building. On or before the expiration of the review period, Landlord shall prepare and submit to Tenant in writing any comments, suggestions, modifications or objections it may have to the submitted drawings or documents.

3. Approval of Contractor, Subcontractors and Materialmen. At least ten (10) business days prior to commencement of construction, Tenant shall furnish to Landlord the names and addresses of all contractors, subcontractors and materialmen employed or to be employed in connection with construction of the Tenant Improvements. Within five (5) business days after receiving this list together with the qualifications and experience of such contractors and subcontractors, Landlord may disapprove of the use of any contractor, subcontractor or materialman set forth on that list. If Landlord fails to notify Tenant of any such disapproval within this five (5) business day period, Landlord shall be deemed to have so approved.

4. Construction Allowance.

4.1. Landlord shall provide Tenant with a construction allowance in the amount of Four Hundred Eight Thousand Nine Hundred Sixty Dollars ($408,960.00) (the "ALLOWANCE"). The Allowance shall be applied to, without limitation, all elements of the cost of construction, including, without limitation, all architectural, design and engineering fees, space planning fees, the fees of Landlord's roofing consultant and contractor to if the Tenant Improvements in any way affect the Building roof, city and regulatory agency permit and license fees and plan checks, Title 24 fees, all labor, all materials, all construction-related utility charges (including, without limitation, all charges for electrical power and water used during construction, the cost of all bonds and permits, and all other fees and costs necessary for the construction of the Tenant Improvements (collectively, "CONSTRUCTION COST"). The Allowance shall not be applied to the fixturizing or cabling the premises or to the purchase, lease, or finance of any furnitures, fixtures, equipment or inventory. However, if the Construction Cost exceeds the Allowance, Tenant shall have the option, to be exercised if at all by delivering written notice to Landlord at any time before the Extended Term Commencement Date, to request Landlord to fund an additional allowance to construct the Tenant Improvements subject to this Section 4 of up to Two and 50/100 Dollars ($2,50) per square foot of the Premises (the "ADDITIONAL TI ALLOWANCE"). If so requested and if Landlord then agrees, in Landlord's sole discretion, to fund the Additional TI Allowance, the Additional TI Allowance shall be amortized over the Extended Term (as defined in the Amendment) at ten percent (10%) per annum and added to Monthly Basic Rent for all purposes under the Lease. The term "ALLOWANCE" shall collectively mean the Tenant Improvement Allowance and, if elected, the Additional TI Allowance,

4.2. Landlord makes no representation or warranty, express or implied, by this Amendment or otherwise that the Allowance will be sufficient to complete construction of the Tenant Improvements in accordance with the Approved Drawings. Tenant shall pay for all costs to construct the Tenant Improvements to the extent the Construction Cost exceeds the Allowance. To the extent the Construction Cost is less than the Allowance, that amount shall be retained by Landlord. Construction shall not commence until Landlord has fully approved the plans and specifications for the Tenant Improvements as set forth in Section 2, above.

4.3. Tenant shall be solely responsible, at its cost but with Landlord's reasonable cooperation, for obtaining all required licenses and permits in connection with the permitted use of the Premises, including, without limitation, any certificate of occupancy or equivalent permit. Tenant shall be solely responsible, at Tenant's cost, for procurement of Tenant's business license.

5. Disbursement of Allowance. Upon completion of the Tenant Improvements (as determined by Landlord) and following expiration of the lien period (as defined below) and provided there are no unpaid claims received by Landlord or construction related liens filed against the Premises before expiration of the lien period, Landlord shall, upon written request from Tenant, disburse the Allowance directly to Tenant (or, as Landlord may determine, by joint check to Tenant and the general contractor). The written request shall be accompanied by construction and other cost vouchers and invoices, together with (i) a list of all work performed and (ii) unconditional final lien releases from the contractors and materialmen in the form required by Civil Code Section 3262 for the Tenant Improvements. Each of the foregoing documents shall be initialed by Tenant and the Contractor. The initials shall indicate approval of all documents. All vouchers and invoices for construction costs presented by Tenant to Landlord shall constitute a representation on the part of Tenant that the funds referred to therein have been used solely for paying only the direct costs of construction of the Tenant Improvements. In the event Landlord has paid utility bills during construction (including, without limitation, electrical and water charges) the amount of said bills shall be deducted from the Allowance disbursed to Tenant. Tenant shall indemnify, defend and hold Landlord harmless from all liability, claims and causes of action for payment of any voucher as presented. The words "EXPIRATION OF THE LIEN PERIOD" shall mean thirty-five (35) days after the filing of the Notice of Completion for the Tenant Improvements and the complete, conditional releases by the Contractor and all subcontractors and materialmen of their respective lien rights against the Premises. If a Notice of Completion is not filed for record, "expiration of the lien period" shall mean ninety-five (95) days after completion of construction, as determined by Landlord's representative, and the complete, conditional releases by the Contractor and all subcontractors and materialmen of their respective lien rights against the Premises.

6. Inspection of Progress of Construction. Landlord and its agents shall have the right at all times during construction of the Tenant Improvements to enter upon the Premises during construction. If the construction is not in substantial compliance with the Approved Drawings or with applicable statutes, regulations, or ordinances, Landlord may direct the contractor to conform construction, at Tenant's cost, to such standards. Notwithstanding the foregoing, Landlord is under no obligation to construct or supervise construction of the Tenant Improvements. Any inspection by Landlord shall be for the sole purpose of protecting Landlord's interests and is not to be relied upon in any regard by Tenant. Furthermore, any inspection by Landlord shall not be representation that there has been or will be compliance with the plans and specifications, applicable laws, regulations or ordinances or that the construction is free from faulty material or workmanship. Tenant hereby assumes all such risks and shall make or cause to be made any and all such other inspections as Tenant may desire for its own protection and/or as required by law.

7. Indemnification of Landlord. Tenant shall indemnify, defend and hold Landlord harmless from and against all claims, causes of action, costs (including attorneys' fees), damages and liabilities arising from or in connection with construction of the Tenant Improvements, including without limitation any and all personal injuries and all mechanics' and materialmen's liens arising therefrom.

8. Notices. Upon completion of the Tenant Improvements, Tenant shall record a Notice of Completion with the County Recorder of Orange County. Tenant irrevocably appoints Landlord as agent to file for record any notices of completion, cessation of labor, or other notice

that Landlord deems necessary to file for record to protect any of Landlord's interests under this Agreement.

9. Insurance. No construction shall proceed without workers' compensation and public liability insurance and property damage insurance, all in amounts and with companies satisfying the requirements of the Lease. Before commencing the construction, certificates of such insurance shall be furnished to Landlord by Tenant, the general contractor, and each major subcontractor and supplier entering the Business Center. If requested, the original policies thereof shall be submitted for Landlord's approval. All such policies shall provide that thirty (30) days written notice must be given to Landlord and Landlord's lender before termination or cancellation.

10. Commencement Date. Under no circumstances shall Contractor's failure to complete the Tenant Improvements in a timely manner in any way affect the Extended Term Commencement Date.

11. Construction Rules and Regulations. Tenant shall cause Contractor and all subcontractors and suppliers to comply with the construction rules and regulations attached hereto as Schedule 2.

12. Roof Work. Without limiting the foregoing, Tenant shall have no right to conduct any work on or to the roof of the Building, including causing any roof penetrations, without procuring Landlord's consent in full compliance with this Construction Agreement. In the event Landlord consents to such roof work as part of the Approved Drawings, Tenant shall coordinate all such roof work with Landlord's approved roofing consultant and roofing contractor and shall pay all costs and fees charged by them.

13. Miscellaneous.

13.1. All of Tenant's contractors, subcontractors, employees, servants and agents must work in harmony and shall not interfere with any work undertaken by or through Landlord, or with the work of any other tenant of the Business Center or its contractors.

13.2. Any work to be performed in adjacent tenant's areas shall be pursued only after obtaining that tenant's and Landlord's express written permission and shall be done only if any agent or employee of Landlord is present. Tenant shall reimburse Landlord for the expense of any such employee or agent.

13.3. If any shutdown of plumbing, electrical, or air conditioning equipment becomes necessary, Tenant shall notify Landlord, and Landlord will determine when such shutdown shall be done only if an agent or employee of Landlord is present. Tenant will reimburse Landlord for any resulting expenses including the expense of any such employee of agent.

SCHEDULE 1

DESCRIPTION OF THE TENANT IMPROVEMENTS

(OFFICE EXPENTION DRAWING)

SCHEDULE 2

CONSTRUCTION WORK RULES AND REGULATIONS

(WARLAND INVESTMENTS COMPANY LOGO)

PROPERTY OWNER: Warland Investments Company

PROPERTY MANAGER: Susan Garey (714) 895-5908
MANAGEMENT FAX NUMBER: (714) 898-3453

The following information outlines the construction work rules and regulations (R&Rs), which will be followed by all construction firms working at WARLAND CYPRESS BUSINESS CENTER. These R&Rs apply to general construction, Tenant lease space construction, and all other construction related activities. No deviation or exception will be permitted without the expressed, written approval of Warland Investments Company ("WARLAND") who owns and manages the property. Questions or comments should be directed to the Property Manager at Warland.

1. Prior to any construction activities, the Contractor shall agree to abide by and conform to these R&Rs and shall acknowledge such agreement for itself and all others performing any portion of the work by or through the Contractor, including subcontracts and materials supplier's by executing these R&Rs where shown.

2. If the Contractor is hired directly by the Tenant, the Tenant will be primarily responsible for the Tenant's Contractor and its Subcontractors, workmen, suppliers, etc. Any action detrimental to the Building(s) is the sole responsibility of the Tenant. Tenant's Contractor shall be responsible for enforcing these R&Rs with all the Subcontractors, workmen and anyone else working on the Premises.

3. Plans and specifications setting forth all work to be performed by the Contractor shall be submitted and approved by Warland in writing prior to work being commenced. Upon completion, Contractor shall deliver to Warland "AS BUILT" drawings of any derivations from original approved plans.

4. All costs, including but not limited to, costs for permits, fees and licenses necessary for the execution of work shall be the sole and exclusive obligation of the Contractor or its Subcontractors provided however, such costs may, if agreed by tenant, be passed on to the Tenant for whom work is performed.

5. Immediately upon being awarded a job, the Superintendent of the successful bidder is required to set-up a field office. The field office can vary from a table in the corner of the construction space for a small job to a separate office for larger projects. The following is a checklist of items to set-up and is maintained at all times on the job:

   A. Full set of Project Drawings and Specifications (as submitted for building permit).

   B. Addendum Drawings and specifications

   C. First Aid Kit

D. Safety Posters and Safety Manual

E. Safety Equipment

F. Memorandums and Drawing Transmittals

G. Daily Log

H. Inspection Logs

I. Visitor Log and Release Forms

J. Extra Work Authorization

K. Hard Hats as required

L. Office supplies (as applicable)

M. Office furniture

N. Drawing Transmittals

O. Schedule (bar chart minimum)

6. The field office should also contain a full set of project files in a locked cabinet. These files should contain all correspondence and copies of contracts and insurance certificates with all subcontractors.

7. The Contractor shall maintain supervisory personnel on site at all times and will provide direct supervision of any and all Work being performed including the delivery of materials. Such supervisory personnel shall be fully empowered to coordinate, respond for and authorize Subcontractors to perform such Work as is necessary to enable the Work to proceed.

8. The Contractor shall be responsible for all its actions on site as well as those of its Subcontractors. Any damage to the Building caused by the Contractor shall be promptly repaired by the Contractor at no cost to Warland. Care shall be taken to protect ceiling, walls, doors, and carpets of tenant areas when moving construction materials, trash, etc. This shall be accomplished by installing masonite on the floor, and plastic on doors, walls, and ceilings. Clean up of these areas upon completion of the job is the responsibility of the Contractor.

9. All risk of loss to all property of the Contractor and its Subcontractor, including but not limited to, tools and materials located on the Premises, shall be the sole and exclusive responsibility of the General Contractor and its Subcontractors and Warland shall have no responsibility of the General Contractor and its Subcontractors and Warland shall have no responsibility therefore.

10. The Contractor shall give all notices and comply with laws, rules, regulations and orders of any public authority bearing on the performance of the Work.

11. Since each job differs in scope, it is necessary that Contractor set up job meetings according to the job needs. Each Contractor's Superintendent must set his own time interval between job meetings, notify Warland of their scheduling and once the intervals are set, maintain them on a regular basis.

12. All construction workers must be properly, permanently, and visually identified. The identification system must be approved prior to the start of any work and may take the form of hard hats with numbered decals or badges for attachment to clothing. All companies will maintain an updated list of authorized workers with Warland and will notify Warland of each change.

13. All workers shall maintain their actions while in the Building(s) in a professional manner to include but not limited to:

    A. No abusive language.

    B. No smoking or drinking on property.

    C. No use of radios in areas which are accessible to the public or from which the public may hear them being played.

14. Warland reserves the right to add other restrictions to those listed above as may be reasonably deemed necessary to provide for the comfort and safety of the tenants.

15. No storage of supplies or trash will be allowed in the Building(s) at any time. All work and adjacent areas are to be kept reasonably cleaned and free of trash, debris and non-useful materials at all times at Contractor's cost. Failure to do so will result in Warland providing this service and charging the contractor accordingly. Warland must approve placement of roll up trash dumpsters prior to placement. Trash dumpsters must be in good condition, free of any graffiti or unappropriate signs, words or language. If trash dumpsters are used at curbside, Contractor must obtain and pay for street use permits and maintain the area in a clean fashion. Building trash containers are not to be used.

16. No storage of flammable substances will be allowed in the Building(s) unless approved by Warland and in accordance with approved building codes and regulations.

17. No interviewing of job applicants or Subcontractors will be allowed on-site without prior approval by Warland and prior scheduled appointment.

18. There will be absolutely no use of Tenant and/or Building property to include, but not limited to, telephones, dollies, ladders, copiers, vacuums, etc., unless specifically approved in writing by the Tenant and/or Warland in advance of their use.

19. All deliveries will be scheduled with Warland. A prior notification of at least 24 hours but not more than 7 days is required.

20. Contractors shall provide and keep available fire extinguisher(s) within the demised premise during construction.

21. Forty-eight hours advance written notice to Warland is required for the following:

    A. Cutting into duct, water-line, existing power lines, temporary disconnecting of any meter, (fire sprinkler) or prior to moving any air handling equipment, thermostat, etc.

    B. Use of toxic materials or varnishing. Including how ventilation and protection of adjacent areas will be handled. Use of toxic materials may require after hours work.

    C. Any core drilling. All core drilling must be evaluated and approved by the Contractor's structural engineer with submittal to Warland for written approval.

    D. Any welding or dust related work that will require the covering of smoke detectors.

    E. Contractor shall provide temporary electrical devices within the demised premises for their Sub-contractor's use. Contractor will not be permitted to run extension cords through public space on occupied floors or through occupied Tenant spaces.

22. Contractor shall coordinate with and provide advance notice in writing to Warland when access to occupied space is required. Contractor shall give notice according to the following schedule.

    A. Less than one hour required in the space; provide 24-hour advance notice.

    B. Less than one day required in the space; provide 3 days advance notice.

    C. More than one day required in the space; provide 7 days advance notice.

23. The Contractor shall not be permitted any identifying signage or advertising unless approved by Warland in writing.

24. Contractor's materials and tool storage will be limited to the work Premises. The Contractor may be permitted storage in other areas of the Building(s) at the option of Warland and as available.

25. Access to any adjacent space is not allowed unless coordinated by Warland. All construction crews shall stay in their respective workspace at all times. Construction personnel shall not use floor sinks, restroom sinks or toilets for cleanup or disposal of any material.

26. Pre-filters shall be installed over all return air openings on floor under construction. If Building filters or equipment require replacement or cleaning due to construction dust, the Contractor will be charged.

27. The Contractor should cover air transfers when working next to tenanted space to control the transmission of dust and dirt. Covering must be removed at the completion of daily construction. Keep all Tenant entrance and exit doors closed to restrict the movement of dust or dirt. Close off temporary openings with polyurethane. Due to local fire codes, no openings may be made on a tenanted floor in the corridor unless the door will be made on a tenanted floor to the corridor doors must remain closed unless materials are being delivered. All HVAC filters in fan rooms shall also be delivered in operable condition at time of completion (thus a temporary filter should be added to the existing filter).

28. Wet paint sign must be posted in all public areas when appropriate.

29. Contractor shall turn off lights and all other equipment at night after completion of work for the day.

30. Contractor shall arrange for pre-inspection of common area and Tenant suites prior to construction to identify items subject to potential claim for breakage, theft, abuse, damage, etc. Pre-inspections shall be attended by the General Superintendent, Subcontractor Foreman, Tenant Representative, and Warland.

31. Contractor shall not interfere with other Tenants in such a manner as to cause unnecessary inconvenience or disruption, such as core drilling, operation of powder actuate tools, hammering, or any construction that would transmit sound through walls and floors. Work of this nature must be scheduled before 7:30 a.m. and after 6:00 p.m. The Management office reserves the right to stop work if deemed necessary.

32. Contractor's use of elevators is limited to construction deliveries, which must be scheduled before 7:30 a.m. and after 6:00 p.m. Prior to use of elevators, Contractor must properly protect flooring, walls and ceiling of elevators.

33. Prior to construction commencement, Contractor shall provide a list of the Subcontractors and any other on-site personnel shall not be changed without the prior written consent of Warland.

34. Warland shall have the right from time to time as may be required, to inspect or perform work within the Building(s). Warland shall have the right to suspend Contractor's Work in the Building if such Work, in the opinion of Warland, is presenting or may present a danger to life, safety, or property, or in an emergency situation.

35. Contractor shall be solely responsible for obtaining the Certificate of Occupancy (or equivalent approval) and shall submit to Warland the original thereof prior to occupancy of the premises for the purposes of conducting business.

36. It is expressly understood and agreed that the construction Contract shall be for the direct benefit of Warland, who is the owner of the Building(s) and the real property on which the work is to be done. Accordingly, Warland shall be granted the right to pursue in its own name any rights or remedies against Contractor including, without limitation, claims for damages granted to other parties under the Contract.

37. No Contractor shall be allowed to start any work in the Building(s) without having a current Certificate of Insurance on file with the Management Office Contractor must keep current insurance certificates on all Sub-contractors. Any Contractor/Sub-contractor performing work found not to have current insurance would be immediately ordered off the premises. General contractors shall list the following as additionally insured:

WARLAND INVESTMENTS COMPANY

38. Contractor must indemnify and hold harmless Warland Investments Company against and from any and all liabilities, obligations, losses, penalties, actions, suits, claims, damages, expenses, disbursements (including legal fees and expenses) and costs of any kind or nature in any way relating to or arising out of the work performed by Contractor. To satisfy this requirement, the Contractor must sign and return the attached standard form Indemnification/Hold Harmless and Subrogation Letter.

39. Contractor and/or subcontractors should assist with Building emergencies once notified by Warland or other designated authority. This could be from immediate evacuation of a Building once an alarm is sounded to assisting with evacuation and executing a plan to terminate the alarm/emergency situation.

40. All contractors working over the weekend and after the normal hours shall provide Warland a list of workers 24 hours prior to the worker being on site or they will be denied access. The list should also include an estimated time the Contractors will be working, the location of the work to be done, the number of employees and the working Supervisor who will be present in the Building(s) during the performance of the work.

These Construction Rules and Regulations have been agreed upon, approved and accepted by the undersigned and on the date indicated below.

CONTRACTOR

Company: ----------------------------

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

Print Name: -------------------------

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

Date: -------------------------------

EXHIBIT "C"

FORM OF PARKING LICENSE AGREEMENT

This Parking License Agreement ("AGREEMENT"), dated for reference purposes as of December 1, 2005, is made between Warland Investments Company, a California limited partnership ("WARLAND") and Universal Electronics Inc., a Delaware corporation ("TENANT") with reference to the following facts:

A. Warland is the lessor and Tenant is the lessee under that certain Lease dated November 1, 1997, as amended by that certain First Amendment to Lease, dated February 21, 2001, that certain Second Amendment to Lease, dated May 27, 2003, and that certain Third Amendment to Lease, dated December 1, 2005 (collectively, the "LEASE") pursuant to which Tenant currently leases from Warland certain premise commonly known as 6101 Gateway Drive, Cypress, California (the "LEASED PREMISES").

B. Warland holds a license conveyed to Warland by DRS Sensors & Targeting Systems, Inc., a Delaware corporation ("DRS") permitting Warland to use thirty (30) parking spaces located on that certain parcel adjacent to the Leased Parcel commonly known as 10600 Valley View, Cypress, California (the "PARKING PARCEL") pursuant to that certain Parking License Agreement by and between Warland and DRS dated December 1, 2005 (the "DRS AGREEMENT").

C. Subject to the terms and conditions of this Agreement, Tenant desires to use certain parking spaces on the Parking Parcel and, subject to the terms and conditions of this Agreement, Warland agrees to permit Tenant the use of such spaces.

Therefore, for valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Parking License. Subject to the terms and conditions of this Agreement, Warland hereby provides the Tenant with the exclusive license to use those thirty (30) passenger automobile parking spaces on the Parking Parcel designated on attached Exhibit A (the "PARKING SPACES") together with the necessary vehicular and pedestrian ingress and egress to the Parking Parcel for access to and from the Parking Spaces (collectively, the "LICENSE"). The License extends only to the Parking Spaces, and, under no circumstances shall Tenant or any of its agents, employees, representatives, licensees, business invitees, including, without limitation any visitors to the Leased Premises (collectively, "TENANT PARTIES") have any right to enter upon or use the other portion of the Parking Parcel.

2. Term. The term of this Agreement (the "TERM") shall begin on the "EXTENDED TERM COMMENCEMENT DATE" as defined in the Lease and shall continue until expiration or earlier termination of the Lease.

3. Permitted Use. The Parking Spaces shall only be used by Tenant Parties using the Leased Premises for the parking of passenger automobiles, light pick-up trucks, passenger vans, and motorcycles ("PERMITTED SIZE VEHICLES"). Without limiting the foregoing, the following is expressly prohibited on the Parking Parcel: (i) the parking of vehicles other than Permitted Size Vehicles (which shall be subject to immediate tow at Tenant's expense), (ii) the parking of vehicles owned, leased or operated by other than Tenant Parties in connection with their use of the Leased Premises, (iii) storage of any nature, (iv) any vehicles parked longer than two (2) consecutive business days (which shall then be subject to tow at Tenant's expense), and (iv) other than emergency tow or "roadside service", any automobile repair.

4. Parking Fee; Lease Performance. On the first day of every month of the Term, Tenant shall pay to Warland a fee for the use of the Parking Spaces in the amount of One Thousand Two Hundred Dollars ($1,200.00) ($40.00 for thirty (30) Parking Spaces) (the "PARKING FEE"). The Parking Fee shall be due and payable on the first day of every month concurrently with Tenant's payment of rent under the Lease. If Tenant fails to pay the Parking Fee when due and fails to cure such default within five (5) business days following written notice by Warland to Tenant, then Warland shall thereafter have the right, in Warland's sole and absolute discretion, to terminate the License and this Agreement. The Parking Fee for any partial month shall be prorated based on a 30-day month. Without limiting the foregoing, the License shall be as additional consideration for Tenant's continuing performance of those obligations on its part to be performed under the Lease. Nothing in this Agreement shall excuse, abate or alter any of Tenant's obligations under the Lease, Upon expiration or earlier termination of the Lease for any reason, the License and this Agreement shall automatically terminate.

5. Alterations; Insurance and Indemnity. Except payment of rent, the License shall be subject to all terms and conditions of the Lease which are incorporated herein by reference. However, to the extent of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of the Lease, the terms and conditions of this Agreement shall control. Without limiting the foregoing, the following provisions shall apply to the License:

   5.1 Alterations. Under no circumstances shall Tenant modify or alter the Parking Parcel or any portion thereof.

   5.2 Repairs. Any damage caused by or through Tenant or any Tenant Parties (shall be repaired, at Warland's election, either directly by Tenant (at its sole cost) or by Warland subject to reimbursement by Tenant as additional rent pursuant to the payment procedures in the Lease). At any time during the Term at Warland's cost, Warland shall have the right to fence the Parking Spaces in order to separate the Parking Spaces from the remainder of the Parking Parcel.

5.3 Insurance and Indemnity. The parties respective insurance and indemnity obligations under the Lease shall apply to the Parking Spaces, and Tenant's use of the License to the same extent as such obligations apply to Tenant's use of the Leased Premises under the Lease. Notwithstanding anything to the contrary, Tenant hereby indemnifies, defends and holds Warland, its officers, directors, shareholders, partners, affiliates and their respective agents and employees harmless from and against any claims, costs, losses, liabilities, damages, or expenses caused by or resulting from Tenant and Tenant Parties', entry onto the Parking Parcel and use of the Parking Spaces by Tenant or Tenant's Parties.

6. Assignment and Subletting. The License shall be assigned to any permitted assignee under the Lease and partially assigned to any permitted subtenant under the Lease to the extent necessary for such subtenant's use of the portion of the Leased Premises so sublet. Under no circumstances shall this License be assigned or transferred in any manner independently of an assignment or sublease under the Lease, and any such independent assignment or other transfer shall be void.

7. Security. Tenant shall be solely responsible, at Tenant's sole cost, expense and liability, for the security of Parking Spaces and the safety of Tenant Parties or any other persons using or entering upon the Parking Spaces. To the extent Tenant engages any security personnel to comply with its obligations hereunder, Tenant shall be solely responsible for the number, competence and quality of such personnel. Tenant acknowledges that Warland shall not be providing any security to the Parking Parcel.

8. Default. In the event either party fails to perform any obligation on its part to be performed, such failure shall be subject to the same notice and cure provisions as set forth in the Lease. Termination of the Lease shall terminate this Agreement and the License.

9. Subordination. This Agreement and the License shall be subordinated to any mortgage or deed of trust on the Parking Parcel to the same extent as the Lease shall be subordinated to any mortgage or deed of trust on the Leased Premises in accordance with Lease Section 10.1. Tenant shall execute and deliver such subordination documents within ten (10) days following a written request from Warland.

10. Commission. No commission or fee shall be owed under this Agreement separate from the Lease or the Third Amendment thereto.

11. Personal Property Interests. The rights conveyed by this Agreement and the License are acknowledged to be personal property interests of Warland. This license grants no interest in nor attaches to any underlying real property within the Parking Parcel or the Leased Premises. Accordingly, the personal property rights conveyed by this License shall not entitle Tenant to file any claim, lien or notice against any real property. As material consideration for this License, Tenant

waives any right it may have to record a lis pendens against the Parking Parcel under section 405 et seq. of the California Code of Civil Procedure, or any other provision of law, if a dispute arises under this License.

12. Costs of Enforcement. If it becomes necessary for either party to employ an attorney or other person or commence an action to enforce any of the provisions of this Agreement or interpret any of the provisions of this Agreement, the non-prevailing party shall pay to the prevailing all attorneys' fees and court costs incurred by the prevailing party in such action.

13. Notices. All notices and other communications made pursuant to this Agreement shall be made in the manner and shall be subject to the requirements of Lease.

14. Relocation. If the DRS Agreement terminates, Warland shall have the right, at any time upon not less than thirty (30) days prior written notice to Tenant, to relocate the Parking Spaces to 6200 Gateway Drive, Cypress, California, as exhibited on attached Exhibit B (the "ALTERNATIVE PARKING PARCEL").

15. Miscellaneous. This Agreement constitutes the entire agreement between the parties hereto pertaining to the subject matter hereof and all prior and contemporaneous agreements, representations and understandings of the parties hereto, oral or written, are hereby superseded and merged herein. No supplement, modification, or amendment of this Agreement shall be binding unless in writing and executed by the parties hereto. This Agreement shall be construed and enforced in accordance with, and governed by, the laws of the State of California. The headings of this Agreement are for purposes of reference only and shall not limit or define the meaning of the provisions hereof. This Agreement may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute one and the same instrument. Neither this Agreement, nor a short form memorandum hereof shall be filed or recorded in any public office without Warland's prior written consent, which may be given or withheld in Warland's sole and absolute discretion; provided, however, if any lender having a secured interest in any of the Parking Parcel and/or the Leased Premises requires such recordation, Tenant shall execute and deliver to Warland a memorandum hereof in recordable form.

[SIGNATURE PAGE FOLLOWS]

WARLAND: WARLAND INVESTMENTS COMPANY,
a California limited partnership

By: /s/ CARL W. ROBERTSON

Carl W. Robertson,
Co-Managing Director

By: /s/ JOHN C. LAW

John C. Law,
Co-Managing Director

TENANT: UNIVERSAL ELECTRONICS INC.,
a Delaware corporation

By: /s/ PAUL ARLING

Its: CHAIRMAN & CEO

By:

Its:

EXHIBIT A
TO FORM OF PARKING LICENSE AGREEMENT

DEPICTION OF THE PARKING SPACES

(TRACT NO. 467 DRAWING)

EXHIBIT B
TO FORM OF PARKING LICENSE AGREEMENT

DEPICTION OF THE PARKING SPACES
ON THE ALTERNATIVE PARKING PARCEL

(SITE PLAN)

EXHIBIT "D"

ADJUSTMENT OF BASIC MONTHLY RENT

Upon the due and timely exercise of an Option pursuant to Section 7 of the Amendment, the "FAIR MARKET RENT" shall be determined as follows:

At least one hundred eighty (180) days before the first day of an Extension pursuant to a duly exercised Option (an "EXTENSION COMMENCEMENT"), Landlord and Tenant shall meet in an effort to negotiate, in good faith, the Fair Market Rent of the Premises as of the commencement date of the Extension (the "EXTENSION COMMENCEMENT"). If Landlord and Tenant have not agreed upon the Fair Market Rent of the Premises at least one hundred (100) days before the Extension Commencement, Landlord and Tenant shall attempt to agree in good faith upon a single appraiser not later than seventy-five (75) days before the Extension Commencement. If Landlord and Tenant are unable to agree upon a single appraiser within this time period, then Landlord and Tenant shall each appoint one (1) appraiser not later than sixty-five (65) days before the Extension Commencement. Within ten (10) days thereafter, the two appointed appraisers shall appoint a third appraiser. If either Landlord or Tenant fails to appoint its appraiser within the prescribed time period, the single appraiser appointed shall determine the Fair Market Rent of the Premises. If both parties fail to appoint appraisers within the prescribed time periods, then the first appraiser thereafter selected by a party shall determine the Fair Market Rent of the Premises. Each party shall bear the cost of its own appraiser, and the parties shall share equally the cost of a single or a third appraiser, if applicable. Each appraiser shall have at least ten (10) years experience in the appraisal of first class commercial /industrial buildings in Orange County, California and shall be a member of one or more professional organizations such as MAI or an equivalent.

For purposes of such appraisal, "FAIR MARKET RENT" shall mean the price that a ready and willing tenant would pay, as of the Extension Commencement, as triple net monthly rent to a ready and willing landlord of a Comparable Building for Comparable Premises if that property were exposed for lease on the open market for a reasonable period of time with a lease comparable to the Lease. "COMPARABLE BUILDING" shall mean a first class commercial building of comparable age in the City of Cypress after taking into account all tenant improvement allowances and other similar monetary concessions for renewal space, if any granted to tenants of Comparable Premises. "COMPARABLE PREMISES" shall mean premises for commercial use within the Comparable Building in a first class condition and access to on-site parking as set forth in this Lease. If a single appraiser is chosen, then such appraisal shall determine the Fair Market Rent of the Premises. Otherwise, the Fair Market Rent of the Premises shall be the arithmetic average of the two of the three appraisals which are closest in amount, and the third appraisal shall be disregarded. In no event, however, shall the then-existing Base Rent ever be reduced by reason of such computation, nor shall there be any rent concession, any tenant improvement allowance or other financial requirement of Landlord for the Extension, Landlord and Tenant shall instruct the appraiser(s) to complete their determination of the Fair Market Rent not later than thirty (30) days before the Extension Commencement. If the Fair Market Rent is not determined before the Extension Commencement, then Tenant shall continue to pay to Landlord the Basic Monthly Rent in effect immediately prior to the Extension Commencement until the Fair Market Rent is determined. When the Fair Market Rent of the Premises is determined, Landlord shall deliver notice of that amount to Tenant, and Tenant shall pay to Landlord, within ten (10) days after receipt of such notice, the difference between the Basic Monthly Rent actually paid by Tenant to Landlord and the new Base Rent determined under this Exhibit.

PARKING LICENSE AGREEMENT

This Parking License Agreement ("AGREEMENT"), dated for reference purposes as of December 1, 2005, is made between Warland Investments Company, a California limited partnership ("WARLAND") and Universal Electronics Inc., a Delaware corporation ("TENANT") with reference to the following facts:

A. Warland is the lessor and Tenant is the lessee under that certain Lease dated November 1, 1997, as amended by that certain First Amendment to Lease, dated February 21, 2001, that certain Second Amendment to Lease, dated May 27, 2003, and that certain Third Amendment to Lease, dated December 1, 2005 (collectively, the "LEASE") pursuant to which Tenant currently leases from Warland certain premise commonly known as 6101 Gateway Drive, Cypress, California (the "LEASED PREMISES").

B. Warland holds a license conveyed to Warland by DRS Sensors & Targeting Systems, Inc., a Delaware corporation ("DRS") permitting Warland to use thirty (30) parking spaces located on that certain parcel adjacent to the Leased Parcel commonly known as 10600 Valley View, Cypress, California (the "PARKING PARCEL") pursuant to that certain Parking License Agreement by and between Warland and DRS dated December 1, 2005 (the "DRS AGREEMENT").

C. Subject to the terms and conditions of this Agreement, Tenant desires to use certain parking spaces on the Parking Parcel and, subject to the terms and conditions of this Agreement, Warland agrees to permit Tenant the use of such spaces.

Therefore, for valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Parking License. Subject to the terms and conditions of this Agreement, Warland hereby provides the Tenant with the exclusive license to use those thirty (30) passenger automobile parking spaces on the Parking Parcel designated on attached Exhibit A (the "PARKING SPACES") together with the necessary vehicular and pedestrian ingress and egress to the Parking Parcel for access to and from the Parking Spaces (collectively, the "LICENSE"). The License extends only to the Parking Spaces, and, under no circumstances shall Tenant or any of its agents, employees, representatives, licensees, business invitees, including, without limitation any visitors to the Leased Premises (collectively, "TENANT PARTIES") have any right to enter upon or use the other portion of the Parking Parcel.

2. Term. The term of this Agreement (the "TERM") shall begin on the "EXTENDED TERM COMMENCEMENT DATE" as defined in the Lease and shall continue until expiration or earlier termination of the Lease.

3. Permitted Use. The Parking Spaces shall only be used by Tenant Parties using the Leased Premises for the parking of passenger automobiles, light pick-up trucks, passenger vans, and motorcycles ("PERMITTED SIZE VEHICLES"). Without limiting

the foregoing, the following is expressly prohibited on the Parking Parcel: (i) the parking of vehicles other than Permitted Size Vehicles (which shall be subject to immediate tow at Tenant's expense), (ii) the parking of vehicles owned, leased or operated by other than Tenant Parties in connection with their use of the Leased Premises, (iii) storage of any nature, (iv) any vehicles parked longer than two (2) consecutive business days (which shall then be subject to tow at Tenant's expense), and (iv) other than emergency tow or "roadside service", any automobile repair.

4. Parking Fee; Lease Performance. On the first day of every month of the Term, Tenant shall pay to Warland a fee for the use of the Parking Spaces in the amount of One Thousand Two Hundred Dollars ($1,200.00) ($40.00 for thirty (30) Parking Spaces) (the "PARKING FEE"). The Parking Fee shall be due and payable on the first day of every month concurrently with Tenant's payment of rent under the Lease. If Tenant fails to pay the Parking Fee when due and fails to cure such default within five (5) business days following written notice by Warland to Tenant, then Warland shall thereafter have the right, in Warland's sole and absolute discretion, to terminate the License and this Agreement. The Parking Fee for any partial month shall be prorated based on a 30-day month. Without limiting the foregoing, the License shall be as additional consideration for Tenant's continuing performance of those obligations on its part to be performed under the Lease. Nothing in this Agreement shall excuse, abate or alter any of Tenant's obligations under the Lease. Upon expiration or earlier termination of the Lease for any reason, the License and this Agreement shall automatically terminate.

5. Alterations; Insurance and Indemnity. Except payment of rent, the License shall be subject to all terms and conditions of the Lease which are incorporated herein by reference. However, to the extent of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of the Lease, the terms and conditions of this Agreement shall control. Without limiting the foregoing, the following provisions shall apply to the License:

   5.1 Alterations. Under no circumstances shall Tenant modify or alter the Parking Parcel or any portion thereof.

   5.2 Repairs. Any damage caused by or through Tenant or any Tenant Parties (shall be repaired, at Warland's election, either directly by Tenant (at its sole cost) or by Warland subject to reimbursement by Tenant as additional rent pursuant to the payment procedures in the Lease). At any time during the Term at Warland's cost, Warland shall have the right to fence the Parking Spaces in order to separate the Parking Spaces from the remainder of the Parking Parcel.

   5.3 Insurance and Indemnity. The parties respective insurance and indemnity obligations under the Lease shall apply to the Parking Spaces, and Tenant's use of the License to the same extent as such obligations apply to Tenant's use of the Leased Premises under the Lease. Notwithstanding anything to the contrary, Tenant hereby indemnifies, defends and holds Warland, its officers, directors, shareholders, partners, affiliates and their respective agents and employees harmless from and against any claims, costs, losses, liabilities, damages, or expenses caused by or resulting from Tenant and Tenant Parties', entry onto the Parking Parcel and use of the Parking Spaces by Tenant or Tenant's Parties.

6. Assignment and Subletting. The License shall be assigned to any permitted assignee under the Lease and partially assigned to any permitted subtenant under the Lease to the extent necessary for such subtenant's use of the portion of the Leased Premises so sublet. Under no circumstances shall this License be assigned or transferred in any manner independently of an assignment or sublease under the Lease, and any such independent assignment or other transfer shall be void.

7. Security. Tenant shall be solely responsible, at Tenant's sole cost, expense and liability, for the security of Parking Spaces and the safety of Tenant Parties or any other persons using or entering upon the Parking Spaces. To the extent Tenant engages any security personnel to comply with its obligations hereunder, Tenant shall be solely responsible for the number, competence and quality of such personnel. Tenant acknowledges that Warland shall not be providing any security to the Parking Parcel.

8. Default. In the event either party fails to perform any obligation on its part to be performed, such failure shall be subject to the same notice and cure provisions as set forth in the Lease. Termination of the Lease shall terminate this Agreement and the License.

9. Subordination. This Agreement and the License shall be subordinated to any mortgage or deed of trust on the Parking Parcel to the same extent as the Lease shall be subordinated to any mortgage or deed of trust on the Leased Premises in accordance with Lease Section 10.1. Tenant shall execute and deliver such subordination documents within ten (10) days following a written request from Warland.

10. Commission. No commission or fee shall be owed under this Agreement separate from the Lease or the Third Amendment thereto.

11. Personal Property Interests. The rights conveyed by this Agreement and the License are acknowledged to be personal property interests of Warland. This license grants no interest in nor attaches to any underlying real property within the Parking Parcel or the Leased Premises. Accordingly, the personal property rights conveyed by this License shall not entitle Tenant to file any claim, lien or notice against any real property. As material consideration for this License, Tenant waives any right it may have to record a lis pendens against the Parking Parcel under section 405 et seq. of the California Code of Civil Procedure, or any other provision of law, if a dispute arises under this License.

12. Costs of Enforcement. If it becomes necessary for either party to employ an attorney or other person or commence an action to enforce any of the provisions of this Agreement or interpret any of the provisions of this Agreement, the non-prevailing party shall pay to the prevailing all attorneys' fees and court costs incurred by the prevailing party in such action.

13. Notices. All notices and other communications made pursuant to this Agreement shall be made in the manner and shall be subject to the requirements of Lease.

14. Relocation. If the DRS Agreement terminates, Warland shall have the right, at any time upon not less than thirty (30) days prior written notice to Tenant, to relocate the Parking Spaces to 6200 Gateway Drive, Cypress, California, as exhibited on attached Exhibit B (the "ALTERNATIVE PARKING PARCEL").

15. Miscellaneous. This Agreement constitutes the entire agreement between the parties hereto pertaining to the subject matter hereof and all prior and contemporaneous agreements, representations and understandings of the parties hereto, oral or written, are hereby superseded and merged herein. No supplement, modification, or amendment of this Agreement shall be binding unless in writing and executed by the parties hereto. This Agreement shall be construed and enforced in accordance with, and governed by, the laws of the State of California. The headings of this Agreement are for purposes of reference only and shall not limit or define the meaning of the provisions hereof. This Agreement may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute one and the same instrument. Neither this Agreement, nor a short form memorandum hereof shall be filed or recorded in any public office without Warland's prior written consent, which may be given or withheld in Warland's sole and absolute discretion; provided, however, if any lender having a secured interest in any of the Parking Parcel and/or the Leased Premises requires such recordation, Tenant shall execute and deliver to Warland a memorandum hereof in recordable form.

[SIGNATURE PAGE FOLLOWS]

WARLAND: WARLAND INVESTMENTS COMPANY, a California limited partnership

By: /s/ CARL W. ROBERTSON

Carl W. Robertson,
Co-Managing Director

By: /s/ JOHN C. LAW

John C. Law,
Co-Managing Director

TENANT: UNIVERSAL ELECTRONICS INC., a Delaware corporation

By: /s/ PAUL ARLING

Its: CHAIRMAN & CEO

By:

Its:

EXHIBIT A
TO PARKING LICENSE AGREEMENT

DEPICTION OF THE PARKING SPACES

Exhibit "A"

(TRACT NO. 467 DRAWING)

EXHIBIT B
TO PARKING LICENSE AGREEMENT

DEPICTION OF THE PARKING SPACES
ON THE ALTERNATIVE PARKING PARCEL

Exhibit "B"

(SITE PLAN)

Exhibit 10.28

CHANGE IN CONTROL AND SALARY CONTINUATION AGREEMENT

THIS AGREEMENT is made as of this 3rd day of March, 2006, by and between Universal Electronics Inc., a Delaware corporation (the "Corporation") and Robert P. Lilleness (the "Executive").

WITNESSETH:

WHEREAS, the Corporation, on behalf of itself and its subsidiaries, wishes to attract and retain well-qualified executive and key personnel and to assure both itself and the Executive of continuity of management in the event of any actual or threatened Change in Control (as defined in Paragraph 2) of the Corporation; and

WHEREAS, to achieve this purpose, the Board of Directors of the Corporation considered and approved this Agreement to be entered into with the Executive as being in the best interests of the Corporation and its stockholders;

NOW, THEREFORE, in consideration of the premises and mutual covenants set forth herein, the parties hereto agree a follows:

1. Operation of Agreement. The "effective date of this Agreement" shall be the date on which a Change in Control occurs, and this Agreement shall not have any force or effect whatsoever prior to that date.

2. Change in Control. For the purposes of this Agreement, a "Change in Control" shall be deemed to occur when and only when the first of the following events occurs:

    a. Any "person" or "group" (as such terms are used in Sections 3(a), 3(d), and 14(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the "1934 Act"), other than (i) a trustee or other fiduciary holding securities under any employee benefit plan of the Corporation or any of its subsidiaries or (ii) a corporation owned directly or indirectly by the stockholders of the Corporation in substantially the same proportions as their ownership of stock in the Corporation, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the 1934 Act)), directly or indirectly, of securities of the Corporation representing 20% or more of the total voting power of the then outstanding securities of the Corporation entitled to vote generally in the election of directors (the "Voting Stock"); or

b. Individuals who are members of the Incumbent Board, cease to constitute a majority of the Board of Directors of the Corporation; or

c. (i) The merger or consolidation of the Corporation with any other corporation or entity, other than a merger or consolidation which would result in the Voting Stock outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the total voting power represented by the Voting Stock or the voting securities of such surviving entity outstanding immediately after such merger or consolidation, (ii) the sale, transfer or disposition of all or substantially all of the Corporation's assets to any other corporation or entity, and/or (iii) the dissolution or liquidation of the Corporation.

The term "Incumbent Board" shall mean (i) the members of the Board of Directors on March 3, 2006, and (ii) any individual who becomes a member of the Board of Directors after March 3, 2006, if his or her election or nomination for election as a director was approved by the affirmative vote of a majority of the then Incumbent Board.

3. Employment. The Corporation hereby agrees to continue the Executive in its employ and/or the employ of one or more of its subsidiaries and the Executive hereby agrees to remain in the employ of the Corporation and/or such subsidiaries, for the period commencing on the effective date of this Agreement and ending on the second anniversary of such date (the "employment period"), to exercise such authority and perform such executive duties as are commensurate with the authority being exercised and duties being performed by the Executive immediately prior to the effective date of this Agreement, which services shall be performed at a location within the metropolitan area in which the Executive was employed immediately prior to the effective date of this Agreement. During the employment period, the Executive agrees to devote Executive's full business time exclusively to such executive duties and shall perform such duties faithfully.

4. Compensation, Compensation Plans, Benefits and Perquisites. During the employment period, the Executive shall be compensated as follows:

a. Executive shall receive an annual salary at a rate which is not less than Executive's rate of annual salary immediately prior to the effective date of this Agreement, with the opportunity for increases from time to time thereafter which are in accordance with the Corporation's regular practices.

b. Executive shall be eligible to participate on a reasonable basis in the Corporation's stock option plans, annual incentive bonus programs and any other bonus and incentive compensation plans (whether now or hereinafter in effect) in which executives with comparable authority and duties are eligible to participate, which plans must provide opportunities to receive compensation which are at least as great as the opportunities under the plans in which the Executive was participating immediately prior to the effective date of this Agreement.

c. Executive shall be entitled to receive employee benefits and perquisites which are the greater of the employee benefits and perquisites provided by the Corporation to executives with comparable duties or the employee benefits and perquisites to which Executive was entitled immediately prior to the effective date of this Agreement. Such benefits and perquisites shall include, but not be limited to, the benefits and perquisites included under the Universal Electronics Inc. 401(K) and Profit Sharing Plan, the Universal Electronics Inc. 1993 Stock Incentive Plan, the Universal Electronics Inc. 1995 Stock Incentive Plan, the Universal Electronics Inc. 1996 Stock Incentive Plan, the Universal Electronics Inc. 1998 Stock Incentive Plan, the Universal Electronics Inc. 1999 Stock Incentive Plan, the Salaried Employee Cash Incentive Program, and the Universal Electronics Inc. group health insurance program, which includes comprehensive medial insurance, group disability, group life insurance, and executive bonus (supplemental life) and such other plans as shall be developed and implemented from time to time.

5. Termination Following Change in Control

a. For purposes of this Agreement, the term "termination" shall mean (i) termination by the Corporation of the employment of the Executive with the Corporation and all of its subsidiaries for any reason other than death, disability or "cause" (as defined below), or (ii) resignation of the Executive (1) for "good reason" (as defined below), or (2) without regard to reason if notice of Executive's decision to resign is delivered to the Corporation within sixty (60) calendar days following the effective date of this Agreement.

b. The term "good reason" shall mean (i) a significant change in the nature or scope or the location for the exercise or performance of the Executive's authority or duties from those referred to in Section 3, a reduction in total compensation, compensation plans, benefits or perquisites from those provided in Section 4, or the breach by the Corporation of any other provision of this Agreement; or (ii) a reasonable determination by the Executive that, as a result of a Change in Control and a change in circumstances thereafter significantly affecting Executive's position, Executive is unable to exercise the authorities, power, function or duties attached to Executive's position and contemplated by Section 3 of the Agreement.

c. The term "cause" means (i) the willful and continued failure by the Executive to substantially perform Executive's duties with the Corporation and/or, if applicable, one or more of its subsidiaries (other than any such failure resulting from Executive's incapacity due to physical or mental illness) after a demand for substantial performance is delivered to Executive by the Board of Directors of the Corporation which specifically identifies the manner in which the Board believes the Executive has not substantially performed Executive's duties, (ii) the willful engaging by the Executive in gross misconduct materially and demonstrably injurious to the property or business of the Corporation or any of its subsidiaries, or (iii) Executive's commission of fraud, misappropriation or a felony. For purposes of this paragraph, no act or failure to act on the Executive's part will be considered "willful" unless done, or omitted to be done, by Executive not in good faith and without reasonable belief that Executive's action or omission was in the interests of the Corporation or not opposed to the interests of the Corporation.

6. Confidentiality. The Executive agrees that during and after the employment period, Executive shall retain in confidence any confidential information known to Executive concerning the Corporation and its subsidiaries and their respective business for as long as such information is not publicly disclosed.

7. No Obligation to Mitigate Damages. The Executive shall not be obligated to seek other employment in mitigation of amounts payable or arrangements made under the provisions of this Agreement and the obtaining of any such other employment shall in no event effect any reduction of the Corporation's obligations under this Agreement.

8. Severance Allowance

a. In the event of the termination of the Executive during the employment period, the Executive shall be entitled to receive a lump sum severance allowance within five days of such termination, in an amount which is equal to the sum of the following:

(i) The amount equivalent to salary payments for 24 calendar months, at the rate required by paragraph 4(a) and in effect immediately prior to termination (without regard to any attempted reduction or discontinuance of such salary); and

(ii) The amount equivalent to 24 calendar months of bonus, at the greater of (A) the monthly rate of the bonus payment for the bonus period in the year immediately prior to Executive' s termination date, or (B) the estimated amount of the bonus for the period which includes Executive's termination date (without regard to any attempted reduction or discontinuance of such bonus).

b. In addition to such amount under paragraph (a) above, the Executive shall also receive, (i) in cash the value of the incentive compensation (including, but not limited to, employer contributions to the Universal Electronics Inc. 401(K) and Profit Sharing Plan and (ii) the rights to receive grants of stock options and stock awards to which Executive would have been entitled under all incentive compensation and stock option and stock award plans maintained by the Corporation if Executive had remained in the employ of the Corporation for 24 months (without regard to any attempted reduction or discontinuance of such incentive compensation). The amount of such payment and/or grants shall be determined as of the date of termination and shall be paid and/or issued as promptly as practicable and in no event later than 30 days after such termination.

c. The Corporation shall maintain in full force and effect for the Executive's continued benefit (and, to the extent applicable, the continued benefit of Executive's dependents) all of the employee benefits (including, not limited to, coverage under any medical and insurance plans, programs or arrangements) to which Executive would have been entitled under all employee benefit plans, programs or arrangements maintained by the Corporation if Executive had remained in the employ of the Corporation for 24 calendar months after Executive's termination (without regard to any attempted reduction or discontinuance of such benefits), or if such continuation is not possible under the terms and provisions of such plans, programs or arrangements, the Corporation shall arrange to provide benefits at least equal to those which the Executive (and, to the extent applicable, Executive's dependents) would have been entitled to receive if the Executive had remained a participant in such plans, programs or for such 24-month period (without regard to any attempted reduction or discontinuance of such benefits.

9. Adjustments in Case of "Excess Parachute Payments. In the event that the aggregate present value (determined in accordance with applicable federal, state and local income tax law, rules and regulations) of all payments to be made and benefits to be provided to the Executive under this Agreement and/or under any other plan, program or arrangement maintained or entered into by the Corporation or any of its subsidiaries shall result in "excess parachute payments" to the Executive within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or any comparable provision of successor legislation, which subject the Executive to the Excise Tax under Section 4999 of the Code or any comparable provision of successor legislation, the Corporation shall pay to the Executive an additional amount (the "gross-up payment") calculated so that the net amount received by Executive after deduction of the Excise Tax and of all federal, state, and local income taxes

upon the gross-up payment shall equal the payments to be made and the benefits to be provided to the Executive under this Agreement. For purposes of determining the amount of the gross-up payment, the Executive shall be deemed to pay federal, state, and local income taxes at the highest marginal rates thereof in the calendar year in which the gross-up payment is to be made, net of the maximum reduction in federal income taxes obtainable from deduction of such state and local taxes. The computations required by this Section 9 shall be made by the independent public accountants then regularly retained by the Corporation, in consultation with tax counsel selected thereby and acceptable to the Executive. Said accountants' and tax counsel's fees shall be paid by the Corporation.

10. Interest; Indemnification

a. In the event any payment to Executive under this Agreement is not paid within five business days after it is due, such payment shall thereafter bear interest at the prime rate from time to time in effect at Bank of America, Los Angeles, California.

b. The Corporation hereby indemnifies the Executive for all legal and accounting fees and expenses incurred by Executive in contesting any action of the Corporation with respect to this Agreement, including the termination of Executive's employment hereunder, or incurred by Executive in seeking to obtain or enforce any right or benefit provided by this Agreement.

11. Notices. Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and if sent by registered or certified mail to the Executive at the last address Executive has filed in writing with the Corporation or, in the case of the Corporation, at its principal executive offices.

12. Non-Alienation. The Executive shall not have any right to pledge, hypothecate, anticipate or in any way create a lien upon any amounts provided under this Agreement; and no benefits payable hereunder shall be assignable in anticipation of payment either by voluntary or involuntary acts, or by operation of law, except by will or the laws of descent and distribution.

13. Governing Law. The provisions of this Agreement shall be construed in accordance with the laws of the State of California, without regard to its conflict of laws provisions.

14. Amendment. This Agreement may be amended or canceled only by mutual agreement of the parties in writing without the consent of any other person and, so long as the Executive lives, no person, other than the parties hereto, shall have any rights under or interest in this Agreement or the subject matter hereof.

15. Successor to the Corporation. Except as otherwise provided herein, this Agreement shall be binding upon and inure to the benefit of the Corporation and any successor of the Corporation.

16. Partial Invalidity. The various covenants and provisions of this Agreement are intended to be severable and to constitute independent and distinct binding obligations of the parties hereto. Should any covenant or provision of this Agreement be determined to be void and unenforceable, in whole or in part, to any party hereto or in any circumstance, it shall not be deemed to affect or impair the validity of any other covenant or provision of part thereof, and shall continue in effect to the extent valid, enforceable and applicable in other circumstances and to the other party, and such covenant or provision of part thereof shall be deemed modified but only to such a minimum extent required to permit it to remain valid, enforceable and applicable to such party or circumstance. Without limiting the generality of the foregoing, if the scope of any covenant, provision or part thereof contained in this Agreement is too broad to permit enforcement to its full extent, such covenant, provision or part thereof shall be enforced to the maximum extent permitted by law, and the parties hereto agree that such scope may be judicially modified accordingly.

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

18. Conflict with Executive Officer Employment Agreement. The parties agree that the Executive Officer Employment Agreement between the Corporation and the Executive dated April __, 2003 (the "EOEA") shall be and remain in full force and effect in accordance with its terms subject to the following: (a) Executive acknowledges that he has received notice from the Corporation in accordance with the terms of the EOEA of the Corporation's decision to not renew the EOEA and that as a result of receiving this notice, the EOEA shall terminate without further action by the parties at the end of business on the "Initial Term" (as such term is defined within the EOEA), (b) to the extent that the terms of this Agreement conflict with those of the EOEA prior to the termination of the EOEA, the terms of the EOEA shall control until such time as the EOEA terminates, at which time the terms of this Agreement shall control, and (c) it is the intention of the parties to this Agreement that this Agreement will serve to replace certain benefits and rights given to Executive under the EOEA that terminate when the EOEA terminates and therefore, the Executive agrees and acknowledges that under no circumstances shall Executive receive remuneration (regardless of whether such remuneration is considered compensation, benefits, perquisites, or severance or the like) under both this Agreement and the EOEA at the same time, that is the Executive

shall first look to the EOEA for such remuneration until the EOEA terminates and then to this Agreement.

IN WITNESS WHEREOF, the Executive has executed this Agreement and, pursuant to the authorization from its Board of Directors, the Corporation has caused this Agreement to be executed in its name on its behalf, and attested by its Secretary, all as of the day and year first above written.

Executive

UNIVERSAL ELECTRONICS INC.,
a Delaware corporation

By:

Paul D. Arling, Chairman and Chief Executive Officer

ATTEST:

- --------------------------------------
Richard A. Firehammer, Jr., Secretary

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 GP, LLC (incorporated in the state of Delaware)

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

UEIC, LP (a Texas limited partnership)

SimpleDevices Inc. (incorporated in the state of Delaware)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued reports dated March 10, 2006, accompanying the consolidated financial statements and schedule 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, 2005. 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 333-91101, effective November 17, 1999; File 333-95715, effective January 31, 2000; File 333-47378; effective October 5, 2000; File 333-103038 effective February 7, 2003; and File 333-117782, effective July 30, 2004).

/s/ Grant Thornton LLP

Irvine, California
March 10, 2006

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement 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 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Orange County, CA
March 10, 2006

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, 2006

/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, 2006

/s/ Bryan M. Hackworth

Bryan M. Hackworth
Chief Accounting Officer (principal financial 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, 2005 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, 2006

Exhibit 32.2

Section 1350 Certifications

Bryan M. Hackworth, as Chief Accounting 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, 2005 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 Accounting Officer (principal financial officer)
March 16, 2006