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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(mark one)

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

For the Quarterly Period ended March 31, 2004

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

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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 13,489,039 shares of Common Stock, par value $.01 per share, of the registrant were outstanding on April 30, 2004.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

UNIVERSAL ELECTRONICS INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share-related data)
(Unaudited)

	March 31, 2004	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 56,930	$ 58,481
Accounts receivable, net	24,464	30,501
Inventories	19,917	19,386
Prepaid expenses and other current assets	1,296	1,108
Deferred income taxes	2,544	2,544
Income tax receivable	1,158	1,167
Total current assets	106,309	113,187
Equipment, furniture and fixtures, net	3,266	3,475
Goodwill	3,322	3,348
Intangible assets, net	3,343	3,431
Other assets	1,394	1,445
Deferred income taxes	1,232	1,281
Total assets	$118,866	$126,167
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 10,787	$ 13,754
Accrued income taxes	3,801	4,504
Accrued compensation	1,926	2,923
Other accrued expenses	9,692	9,815
Total current liabilities	26,206	30,996
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; 16,417,427 and 16,404,485 shares issued at March 31, 2004 and December 31, 2003, respectively	164	164
Paid-in capital	75,900	75,805
Accumulated other comprehensive (loss) income	(347)	298
Retained earnings	37,957	36,179
Deferred stock-based compensation	(21)	(42)
Less cost of common stock in treasury, 2,891,960 and 2,598,670 shares at March 31, 2004 and December 31, 2003, respectively	(20,993)	(17,233)
Total stockholders' equity	92,660	95,171
Total liabilities and stockholders' equity	$118,866	$126,167

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

UNIVERSAL ELECTRONICS INC.

CONSOLIDATED INCOME STATEMENTS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Net sales	$32,611	$26,919
Cost of sales	19,947	16,762
Gross profit	12,664	10,157
Research and development expenses	1,130	1,163
Selling, general and administrative expenses	9,454	7,688
Operating income	2,080	1,306
Interest income	114	102
Other income, net	500	15
Income before income taxes	2,694	1,423
Provision for income taxes	(916)	(484)
Net income	$ 1,778	$ 939
Earnings per share:		
Basic	$ 0.13	$ 0.07
Diluted	$ 0.13	$ 0.07
Shares used in computing earnings per share:		
Basic	13,715	13,582
Diluted	14,052	13,785

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

UNIVERSAL ELECTRONICS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2004	**2003**
Cash provided by operating activities:		
Net income	$ 1,778	$ 939
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	80	130
Depreciation and amortization	598	937
Employee benefit plan	—	21
Directors' compensation	—	83
Changes in operating assets and liabilities:		
Accounts receivable	5,891	318
Inventories	(579)	(2,560)
Prepaid expenses and other assets	(139)	149
Accounts payable and accrued expenses	(4,021)	2,218
Accrued income and other taxes	(688)	209
Net cash provided by operating activities	2,920	2,444
Cash used for investing activities:		
Purchase of short-term investments		(12,000)
Sale of short-term investments		500
Acquisition of equipment, furniture and fixtures	(257)	(246)
Acquisition of intangible assets	(33)	—
Payments for patents	—	(75)
Net cash (used for) investing activities	(290)	(11,821)
Cash (used for) provided by financing activities:		
Treasury stock purchase	(3,760)	(312)
Proceeds from stock options exercised	95	1,121
Payment on note payable	—	(18)
Net cash (used for) provided by financing activities	(3,665)	791
Effect of exchange rate changes on cash	(516)	(198)
Net (decrease) in cash and cash equivalents	(1,551)	(8,784)
Cash and cash equivalents at beginning of period	58,481	18,064
Cash and cash equivalents at end of period	$56,930	$ 9,280

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

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UNIVERSAL ELECTRONICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries after elimination of all material intercompany accounts and transactions. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's 2003 Annual Report on Form 10-K. The financial information presented in the accompanying statements reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of the periods indicated. All such adjustments are of a normal recurring nature.

Stock-Based Compensation

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

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

	Three Months Ended March 31, 2004	2003
Net income		
As reported	$1,778	$ 939
Less: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(593)	(771)
Pro forma	$1,185	$ 168
Basic earnings per share:		
As reported	$ 0.13	$0.07
Pro forma	$ 0.09	$0.01
Diluted earnings per share		
As reported	$ 0.13	$0.07
Pro forma	$ 0.08	$0.01

The fair value of options at date of grant was estimated using the Black-Scholes model. There were 495,428 options granted during the three month period ended March 31, 2004. The following assumptions were used for the grants during the three month period ended March 31, 2004: risk-free interest rate of approximately 2.8%, expected volatility of 59.4%, expected life of five years; and the common stock will pay no dividends. The per share weighted average grant date fair values of the options granted during the three month period ended March 31, 2004 was $12.59.

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

Accounts Receivable

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

The Company had one significant customer with sales of $3.8 million and $3.9 million representing 11.8% and 14.3% of net sales for the three months ended March 31, 2004 and 2003, respectively. Accounts receivable with this customer amounted to $1.8 million or 7.2% and $2.7 million or 9.0% of the total accounts receivable at March 31, 2004 and December 31, 2003, respectively.

Inventories

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

	March 31, 2004	December 31, 2003
Components	$ 8,727	$ 7,593
Finished goods	11,190	11,793
Inventory, net	$19,917	$19,386

During the quarter ended March 31, 2004 inventory write-downs totaled $0.5 million. Inventory write-downs are a normal part of the Company's business, and result primarily from product life cycle estimation variances.

Investment

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

Income Taxes

The Company uses the estimated effective tax rate for the year to determine its provision for income taxes. The Company recorded income tax expense of $0.9 million for the first quarter of 2004 compared to $0.5 million for the same period last year. The Company's estimated effective tax rate was 34% during the first quarters of 2004 and 2003.

Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding and dilutive potential common shares, which includes the dilutive effect of stock options and restricted stock grants. Dilutive potential common shares for all periods presented are computed utilizing the treasury stock method. In the computation of diluted earnings per common share for the three months ended March 31, 2004 and 2003, approximately 1,093,903 and 1,745,000 stock options, respectively, with exercise prices greater than the average market price of the underlying common stock were excluded because their inclusion would have been antidilutive.

Earnings per share for the three months ended March 31, 2004 and 2003 are calculated as follows (in thousands, except per-share amounts):

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	Three Months Ended	
	March 31, 2004	March 31, 2003
BASIC		
Net income	$ 1,778	$ 939
Weighted-average common shares outstanding	13,715	13,582
Basic earnings per share	$ 0.13	$ 0.07
DILUTED		
Net income	$ 1,778	$ 939
Weighted-average common shares outstanding for basic	13,715	13,582
Dilutive effect of stock options and restricted stock	337	203
Weighted-average common shares outstanding on a diluted basis	14,052	13,785
Diluted earnings per share	$ 0.13	$ 0.07

Comprehensive Income

The components of comprehensive income are listed below (in thousands):

	Three Months Ended March 31,	
	2004	2003
Net Income	$1,778	$ 939
Other comprehensive (loss) income:		
Foreign currency translations	(645)	131
Comprehensive income:	$1,133	$1,070

Treasury Stock

The Company purchased 293,290 shares of its common stock at a cost of $3.8 million during the quarter ended March 31, 2004. During the quarter ended March 31, 2003, the Company purchased 32,768 shares of its common stock at a cost of $312,391. The Company holds shares purchased from the open market as treasury stock which are available for reissue by the Company.

New Accounting Pronouncements

In November 2002, the FASB issued Emerging Issues Task Force (“EITF”) Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables.” EITF Issue No. 00-21 addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. EITF Issue No. 00-21 addresses when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF Issue No. 00-21 provides guidance with

UNIVERSAL ELECTRONICS INC.
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respect to the effect of certain customer rights due to company nonperformance on the recognition of revenue allocated to delivered units of accounting. EITF Issue No. 00-21 also addresses the impact on the measurement and/or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the company. Finally, EITF Issue No. 00-21 provides guidance with respect to the recognition of the cost of certain deliverables that are excluded from the revenue accounting for an arrangement. The provisions of EITF Issue No. 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF Issue No. 00-21 did not have a material effect on our financial position, results of operations, or cash flows.

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

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

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

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

Goodwill and Intangible Assets

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

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

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

	March 31, 2004	December 31, 2003
United States	$1,191	$1,191
All Other Countries	2,131	2,157
Total Goodwill	$3,322	$3,348

Intangible assets consist principally of distribution rights, patents, trademarks and purchased technologies. Capitalized amounts related to patents represent external legal costs for the application and maintenance of patents. Intangible assets are amortized using the straight-line method over their estimated period of benefit, ranging from five to ten years.

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

	March 31, 2004	December 31, 2003
Carrying amount:		
Distribution rights	$2,935	$2,597
Patents	3,266	3,294
Trademarks	125	538
Technology	1,419	1,284
Other	1,049	1,049
Total carrying amount	$8,794	$8,762
Accumulated amortization:		
Distribution rights	$2,616	$2,562
Patents	1,281	1,228
Trademarks	49	100
Technology	477	416
Other	1,028	1,025
Total accumulated amortization	$5,451	$5,331
Net carrying amount:		
Distribution rights	$ 319	$ 35
Patents	1,985	2,066
Trademarks	76	438
Technology	942	868
Other	21	24
Total net carrying amount	$3,343	$3,431

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Amortization expense for the three months ended March 31, 2004 was approximately $0.1 million. Amortization expense for the three months ended March 31, 2003 was approximately $0.3 million. Estimated amortization expense for existing intangible assets for each of the five succeeding years ending December 31 will be as follows (in thousands):

2004 (remaining nine months)	$466
2005	594
2006	584
2007	467
2008	428
2009	385

Accounting Policy for Derivatives

Depending on the predictability of the cash flows of each operating currency, the Company periodically enters into foreign currency exchange contracts with option-based arrangements and contract terms normally lasting less than six months, to protect against the adverse effects that exchange-rate fluctuations may have on foreign-currency-denominated trade receivables. These derivatives do not qualify for hedge accounting. The gains and losses on both the derivatives and the foreign-currency-denominated trade receivables are recorded as transaction adjustments in current earnings.

The Company's currency exposures are primarily concentrated in the Euro and British Pound. The Company does not enter into financial instruments for speculation or trading purposes. The Company had no foreign currency exchange contracts or other derivatives that were entered into during the quarter ended March 31, 2004 or were outstanding as of March 31, 2004 and December 31, 2003.

During 2003 the Company periodically invested in 30 day Dual Currency Deposits which required the Company to convert the invested amount to another currency at the end of the contract period in the event certain changes occurred in foreign currency exchange rates. No such investments were outstanding as of March 31, 2004.

Business Segments and Foreign Operations

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

The Company's sales to external customers and identifiable assets by geographic area are presented below (in thousands):

	Three Months Ended March 31,	
	2004	**2003**
Net Sales		
United States	$17,705	$16,323
Netherlands	4,004	2,956
United Kingdom	5,445	2,800
France	775	1,122
Germany	1,579	1,388
All Other	3,103	2,330
Total Net Sales	$32,611	$26,919

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

	March 31, 2004	December 31, 2003
Long-lived Assets		
United States	$2,927	$3,002
All Other Countries	1,733	1,917
Total	$4,660	$4,919

Specific identification of customer location was the basis used for attributing revenues from external customers to individual countries. Foreign currency transaction gains of $498,239 and $19,809 were included in other income for the three months ended March 31, 2004 and 2003, respectively.

Guarantees and Product Warranties

The Company indemnifies its directors and officers to the maximum extent permitted under the laws of the State of Delaware. The Company has purchased directors and officers insurance coverage to cover claims made against the directors and officers during the applicable policy periods. The amounts and types of coverage have varied from period to period as dictated by market conditions.

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

Description	Balance at Beginning of Period	Accruals for Warranties Issued During the Period	Settlements (in Cash or in Kind) During the Period	Balance at End of Period
Three Months Ended March 31, 2004	$95,005	$577,120	$(82,325)	$589,800
Three Months Ended March 31, 2003	$95,005	$ 14,536	$(14,536)	$ 95,005

The increase in the warranty accrual is attributable to three distinct, separate warranty issues that arose during the quarter, and the balance represents the expected payments associated with these issues.

Commitments and Contingent Liabilities

The Company is a party to lawsuits and claims arising in the normal course of its business. At the present time, there are two lawsuits pending brought by the Company against third parties. In these actions, the Company is seeking money damages and injunctive relief. In one of these actions, the third party has filed suit against the Company seeking a declaration that certain of its patents are invalid and unenforceable. It is the opinion of management that such patents are valid and enforceable and the Company intends to defend against such suit vigorously. In addition, there is one action pending against the Company in which a trustee for the bankruptcy estate of a former service provider has alleged that the Company received preferential treatment in connection with certain payments made on its behalf by the service provider. The Company disagrees with these allegations and intends to vigorously defend itself against these allegations. While it is the opinion of management that the Company’s products do not infringe any third party’s patent or other intellectual property rights, the costs associated with defending or pursuing any such claims or litigation could be substantial and amounts awarded as final judgments, if any, in any such potential or pending litigation, could have a significant and material adverse effect on the Company’s financial condition, results of operations, or cash flows. The Company does not believe at this time that it is probable there will be an unfavorable outcome; accordingly, no amount for any potential loss contingency has been recorded in the consolidated financial statements.

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

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. Our channels of distribution include international retail, private label, OEMs, and cable and satellite service providers and companies in the computing industry. We believe that our universal wireless controls can operate virtually all infrared remote ("IR") controlled TVs, VCRs, DVD players, cable converters, CD players, audio components and satellite receivers, as well as most other infrared remote controlled devices worldwide.

Beginning in 1986 and continuing today, we have compiled an extensive library of over 171,000 IR codes that cover nearly 141,000 individual device functions and over 2,100 individual consumer electronic equipment brand names. 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 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 its 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 similarly priced products of competitors. We have developed a patented technology that provides the capability to easily upgrade the memory of the wireless control device by adding IR codes from the library that were not originally included.

The matters discussed in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements provided under Part I, Item 1 of this Quarterly Report. Certain statements contained herein may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, as discussed more fully herein.

Among the factors that could cause actual results to differ materially from those expressed herein are the following: the failure of our markets to continue growing and expanding in the manner we anticipated; the failure of our customers to grow and expand as we anticipated; the effects of natural or other events beyond our control, including the effect a war or terrorist activities may have on the Company or the economy; the economic environment's effect on us and our customers; the growth of, acceptance of and demand for our products and technologies in various markets and geographical regions, including cable, satellite, consumer electronics, retail and interactive TV and home automation, not materializing as we believed; our inability to add profitable complementary products which are accepted by the marketplace; our inability to continue to maintain our operating costs at acceptable levels through our cost containment efforts; our realization of tax benefits from various tax projects initiated from time to time; the continued strength of our balance sheet; our inability to continue selling our products or licensing our technologies at higher or profitable margins throughout 2004 and beyond; the failure of the various markets and industries to grow or emerge as rapidly or as successfully as we believed; the continued growth of the digital market; our inability to obtain orders or maintain our order volume with new and existing customers; the possible dilutive effect our stock option program may have on our earnings per share and stock price; our inability to continue to obtain adequate quantities of component parts or secure adequate factory production capacity on a timely basis; and other factors listed from time to time in our press releases and filings with the Securities and Exchange Commission.

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

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, allowance for sales returns and doubtful accounts, inventories, valuation of long-lived assets, intangible assets and goodwill, and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

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

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

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

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

Warranties. In general we warrant our products against defects in material and workmanship during normal use and service, and service warranty claims either directly through our customer service department, or through contracted third-party warranty repair facilities. We offer warranties of up to three years. The term and other warranty conditions negotiated with customers vary across the many industry segments we service, and are largely driven by industry customs and the competitive atmosphere for each segment.

Our warranty accrual includes the costs to repair or replace defective products and ship them to our customers. The amount of the warranty accrual is based on past experience as well as known issues we believe to be in excess of historical trends.

If our quality control efforts were to fail in detecting a defect in one of our products, we could experience increased warranty claims, which could have a significant impact on our current and future financial position, results of operations and cash flows.

Goodwill. In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets,” we ceased amortization on approximately $3.0 million of net unamortized goodwill beginning January 1, 2002. We performed an initial impairment review of our goodwill on January 1, 2002, conducted annual impairment reviews as of December 31, 2003 and 2002 and will perform an annual review in subsequent years. In performing the initial impairment review, we identified our reporting units and determined the carrying value of each reporting unit by assigning assets and liabilities, including the existing goodwill, to those reporting units as of January 1, 2002. We then determined the fair value of each reporting unit using the present value of expected future cash flows and compared it to the reporting unit’s carrying amount. Based on this analysis, we determined that each reporting unit’s fair value exceeded its carrying amount, and therefore concluded that there was no indication of a transitional impairment loss. As further mandated by SFAS No. 142, we performed annual impairment tests of our goodwill as of December 31, 2003 and 2002, using the same methodology employed for the initial impairment review of our goodwill, and determined that there was no indication of an impairment loss for each of those years.

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

Results of Operations

The following table sets forth our results of operations expressed as a percentage of net sales for the three months ended March 31:

	2004	2003
Net sales	100.0%	100.0%
Cost of sales	61.2	62.3
Gross profit	38.8	37.7
Research and development expenses	3.5	4.3
Selling, general and administrative expenses	29.0	28.6
Operating income	6.3	4.9

	2004	2003
Interest income, net	0.4	0.4
Other income	1.5	0.1
Income before income taxes	8.2	5.3
Provision for income taxes	2.8	1.8
Net income	5.4%	3.5%

First Quarter 2004 versus First Quarter 2003

	2004		2003	
	$ (million)	% of total	$ (million)	% of total
Net sales:				
Technology	21.0	64.5%	19.1	71.0%
Retail	11.6	35.5%	7.8	29.0%
Total net sales	$32.6	100%	$26.9	100%

Net sales for the 2004 first quarter were $32.6 million, an increase of 21.1% compared to $26.9 million for the same quarter last year. This increase relates to an increase in subscription broadcasting sales, European retail sales, and the appreciation of the Euro relative to the US dollar.

Net sales in our technology lines (subscription broadcasting, OEM, private label and computing companies) were approximately 64.5% of net sales for the first quarter of 2004 compared to 71.0% for the first quarter of 2003. Net sales in our technology lines for the first quarter of 2004 increased by 10.2% to $21.0 million from $19.1 million for the same period last year. The increase in technology sales was principally due to growth in subscription broadcasting, which resulted from an increase in volume of remote control sales. This volume was partially offset by lower prices. The increase in volume was attributable to the continued deployment of advanced function set-top boxes by the multiple service operators. These advanced functions include personal video recording (PVR) and high definition (HD) television.

Net sales in our retail lines (*One For All*® international and direct import) accounted for approximately 35.5% of total first quarter 2004 net sales compared to 29.0% for the corresponding period in 2003. Our net sales for the 2004 first quarter from our retail customers were $11.6 million, an increase of 48.0% from net sales of $7.8 million for the same quarter last year. The increase in retail sales was due to the continued success of our *One For All*® international and direct import business, and the launch of Sky-branded digital accessories in the third quarter of 2003.

We expect continued higher revenue contribution from the retail sector. This trend is primarily driven by increased sales of remote controls and audio-video accessories in Europe.

Gross profit for the first quarter of 2004 was $12.7 million compared to $10.2 million for the first quarter of 2003. Gross profit as a percent of sales for the first quarter of 2004 was 38.8% compared to 37.7% for the same period last year. The increase is primarily attributable to appreciation of the Euro relative the U.S. Dollar, which resulted in an increase of approximately $0.7 million of gross profit. These items were offset by an increase in warranty expense of approximately $0.5 million, and an increase in inventory write-downs of approximately $0.5 million. Inventory write-downs are a normal part of our business and result primarily from product life cycle estimation variances.

Research and development expenses decreased 2.9% from $1.2 million in the first quarter of 2003 to $1.1 million for the same period in 2004. The marginal decrease is the result of a termination that occurred in the fourth quarter of 2003. Research and development expenses are expected to increase throughout 2004 as the Nevo platform is expanded.

Selling, general and administrative expenses increased 23.0% from $7.7 million in the first quarter of 2003 to $9.5 million for the same period in 2004. Approximately $0.6 million of the increase was attributable to appreciation of the Euro relative the U.S. Dollar. Approximately $0.2 million is attributable to Sarbanes-Oxley compliance efforts. The remaining increase of approximately $0.9 million is attributable to employee turnover and related costs, bonuses, patent litigation, patent filing costs and business and occupation taxes.

In the first quarter of 2004, we recorded $0.1 million of interest income compared to $0.1 million for the same period last year.

Other income consists primarily of net gain on realized foreign exchange transactions. For the first quarter of 2004, other income amounted to $0.5 million as compared to $0.0 million for the same period last year.

We recorded income tax expense of $0.9 million for the first quarter of 2004 compared to $0.5 million for the same period last year. Our estimated effective tax rate was 34% during the first quarters of 2004 and 2003.

Net income for the first quarter of 2004 was $1.8 million or $0.13 per share (basic and diluted) compared to $0.9 million, or $0.07 per share (basic and diluted) for the first quarter of 2003.

Liquidity and Capital Resources

(In thousands)

	March 31, 2004	Increase (decrease)	December 31, 2003
Cash and cash equivalents	$56,930	$(1,551)	$58,481
Working capital	80,103	(2,088)	82,191
	Three months ended March 31, 2004	**Increase (decrease)**	**Three months ended March 31, 2003**
Cash provided by operating activities	2,920	476	2,444
Cash (used for) investing activities	(290)	11,531	(11,821)
Cash (used for) provided by financing activities	(3,665)	(4,456)	791
Effect of exchange rate changes	(516)	(318)	(198)

Our principal sources of funds are from our operations. Cash provided by operating activities for the first three months of 2004 was $3.0 million as compared to $2.4 million in the corresponding period in 2003. The increase in cash flow is primarily due to collections on accounts receivable, offset by a decrease in accounts payable.

In September 2003, we terminated our $15,000,000 unsecured revolving credit agreement with Bank of America National Trust and Savings Association. On September 15, 2003, we entered into a three-year $15,000,000 unsecured revolving credit agreement (the “Agreement”) with Comerica Bank (“Comerica”). Under the Agreement with Comerica, the interest payable is variable and is based on either the bank’s cost of funds or the LIBOR rate plus a fixed margin of 1.25%. The interest rate in effect as of March 31, 2004 using the LIBOR Rate option plus a fixed margin of 1.25% was 2.34%. We pay a commitment fee ranging from zero to a maximum rate of 1/4 of 1% per year on the unused portion of the credit line depending on the amount of cash investment retained with Comerica during each quarter. Under the terms of this Agreement, dividend payments are allowed up to 100% of net income of the prior fiscal year period to be paid within 90 days of such prior year, and we are subject to certain financial covenants related to the Company’s net worth, quick ratio, and net income. Amounts available for borrowing under this credit facility are reduced by the outstanding balance of import letters of credit. As of

March 31, 2004, we had no amounts outstanding under this credit facility and no outstanding import letters of credit. Furthermore, as of March 31, 2004, we are in compliance with all financial covenants required by the agreement.

We have authority under this credit facility to acquire up to 1,500,000 shares of our common stock in market purchases. Between the date of execution of the credit agreement and March 31, 2004, 339,026 shares of our common stock have been purchased. In the first three months of 2004, we purchased 293,290 shares of our common stock at a cost of $3.8 million. We hold these shares as treasury stock, and they are available for reissue by us. Presently, except for using a small number of these treasury shares to compensate our outside board members, we have no plans to distribute these shares, although we may change these plans if necessary to fulfill our on-going business objectives. In addition, during the three months ended March 31, 2004, we received proceeds of approximately $0.1 million from the exercise of stock options granted to our current and former employees, as compared to approximately $1.1 million during the same period in 2003.

Capital expenditures in the first three months of 2004 and 2003 were approximately $0.3 million and $0.3 million, respectively. These expenditures related primarily to acquiring product tooling each year.

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

New Accounting Pronouncements

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

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

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

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

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

Factors That May Affect Financial Condition And Future Results

Forward Looking Statements

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

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

Dependence upon Key Suppliers

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

Dependence on Foreign Manufacturing

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

however, the loss of any of our major manufacturers could adversely affect our business until alternative manufacturing arrangements are secured.

Potential Fluctuations in Quarterly Results

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

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

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

Dependence on Consumer Preference

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

Demand for Consumer Service and Support

We have continually provided domestic and international consumer service and support to our customers to add overall value and to help differentiate us from our competitors. In March 2003, our largest customer notified us that as a result of a merger, it would conduct all of its consumer service and support activities internally and cease using our services commencing the second quarter of 2003. Consequently, revenue for consumer service and support from this customer has ceased. In light of this, we have reviewed our domestic 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 addition, in the event other customers decide to cease using this service, we would be unable to offset costs associated with providing this service resulting in a significant adverse effect on our financial condition, results of operations and cash flows.

Dependence Upon Timely Product Introduction

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

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

Dependence on Major Customers

The economic strength and weakness of our worldwide customers affect our performance. We sell our wireless control products and proprietary technologies to private label customers, original equipment manufacturers, and companies involved in the subscription broadcasting industry. We also supply our products to our wholly owned, non-U.S. subsidiaries and to independent foreign distributors, who in turn distribute our products worldwide, with Europe, Australia, New Zealand, Mexico and selected countries in Asia and Latin America currently representing our principal foreign markets. During the first quarter of 2004 and the year ended 2003, we had sales to one customer that amounted to more than ten percent of our net sales for the year. The future loss of that customer or any other key customer, either in the United States or abroad due to the financial weakness or bankruptcy of any such customer or our inability to obtain orders or maintain our order volume with our major customers, may have an adverse effect on our financial condition, results of operations and cash flows.

Competition

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

Patents, Trademarks, and Copyrights

The procedures by which 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 issue, or if issued, will deliver any lasting value to us. There is no assurance that the 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 protect such products and intellectual property rights to the same extent as the U.S. legal system.

In our opinion, the engineering, production, and marketing skills and experience of our personnel are of equal importance to our market positions as are our intellectual property holdings. We further believe that none of our businesses is dependent to any material extent 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 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 patents of others.

Potential for Litigation

As is typical in our industry and the nature and kind of business in which we are engaged, from time to time, various claims, charges and litigation are asserted or commenced by third parties against us or by us against third parties, arising from or related to product liability, infringement of patent or other intellectual property rights, breach of warranty, contractual relations, or employee relations. The amounts claimed may be substantial but may not bear any reasonable relationship to the merits of the claims or the extent of any real risk of court awards assessed against us or in our favor. At the present time, we have filed two lawsuits against third parties. In these actions, we are seeking money damages and injunctive relief for infringement of certain of our intellectual property. In one of these actions, the third party has filed a counterclaim against us seeking a declaration that certain of our patents are invalid and unenforceable. It is our opinion that our patents are valid and enforceable and we intend to defend against such counterclaim vigorously. In addition, there is one action pending against us in which a trustee for the bankruptcy estate of a former service provider has alleged that we received preferential treatment in connection with certain payments made on our behalf by the service provider. We disagree with these allegations and intend to vigorously defend ourselves against these allegations.

While it is our opinion that our products do not infringe any third party's patent or other intellectual property rights or that we received preferential treatment, the costs associated with defending or pursuing any such claims or litigation, including the matters discussed in this Annual Report on Form 10-K, could be substantial and amounts awarded as final judgments, if any, in any such potential or pending litigation, could have a significant and material adverse effect on our financial condition, results of operations and cash flows.

Effects on Universal Due to International Operations

The risks of doing business internationally could adversely affect our sales, operations, earnings, and cash flows due to a variety of factors, including:

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

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

General Economic Conditions

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

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

Increased Regulation

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

Outlook

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

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

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

We will seek ways to increase our customer base worldwide, particularly in the areas of subscription broadcasting, OEM, and *One For All®* international retail. We will continue to work on building stronger existing relationships by working with customers to understand how to make the consumers interaction with products and services within the home easier and more enjoyable. We intend to invest in new products and technology to meet our customer needs now and into the future.

In 2004, we are continuing 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including interest rate and foreign currency exchange rate fluctuations. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks. The interest payable under our revolving credit agreement with our bank is variable and is based on either the bank's cost of funds, or the LIBOR rate plus a fixed margin of 1.25%, and is affected by changes in market interest rates. At March 31, 2004 we had no borrowings on our credit line. The interest rate in effect on the credit line as of March 31, 2004 using the LIBOR Rate option plus a fixed margin of 1.25% was 2.34%.

At March 31, 2004 we had wholly owned subsidiaries in The Netherlands, United Kingdom, Germany, France, Argentina and Spain. Sales from these operations are typically denominated in local currencies including Euros, British Pounds, and Argentine Pesos thereby creating exposures to changes in exchange rates. Changes in local currencies exchange rates relative to the U.S. Dollar may positively or negatively affect our sales, gross margins and retained earnings. From time to time, we enter into foreign currency exchange agreements to manage our exposure arising from fluctuating exchange rates that affect cash flows. We entered into no foreign currency forward exchange contracts during the three months ended March 31, 2004. However, we did purchase foreign currency exchange contracts with option-based arrangements and contract terms normally lasting less than 6 months, to protect against the adverse effects that exchange-rate fluctuations may have on foreign-currency-denominated trade receivables. We do not enter into any derivative transactions for speculative purposes. The sensitivity of earnings and cash flows to variability in exchange rates is assessed by applying an approximate range of potential rate fluctuations to our assets, obligations and projected results of operations denominated in foreign currencies. Based on our overall foreign currency rate exposure at March 31, 2004, we believe that movements in foreign currency rates should not materially affect our financial position, although no assurance can be made that any such foreign currency rate movements in the future will not have a material effect. Because of the foregoing factors (discussed under this caption "Quantitative and Qualitative Disclosures About Market Risk" and above under caption "Factors That May Affect Financial Condition And Future Results"), as well as other variables that affect our operating results, past financial performance should not be considered a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of our management team, including our Chief Executive Officer and Chief Financial Officer, 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 Chief Executive Officer and Chief Financial Officer 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.

There were no changes in our internal control over financial reporting during the quarter covered by this report that materially affected or reasonably are likely to affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

No material legal proceeding first became a reportable event, nor was there any material development or termination with respect to any previously reported legal proceeding, during the period covered by this report. Reference is made to the description of the legal proceedings in Note 19 contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2003 for information regarding reportable legal proceedings pending as of that date.

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Item 2. CHANGES IN SECURITIES, USER OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company purchased 293,290 shares of its common stock at a cost of $3.8 million during the quarter ended March 31, 2004. During the quarter ended March 31, 2003, the Company purchased 32,768 shares of its common stock at a cost of $312,391. These purchases are set forth in the following table:

ISSUER PURCHASES OF EQUITY SECURITIES (1)

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
January 1, 2004 – January 31, 2004	55,090	$13.23	N/A	N/A
February 1, 2004 – February 29, 2004	76,000	$12.72	N/A	N/A
March 1, 2004 – March 31, 2004	162,200	$12.73	N/A	N/A
Total Q1 2004	293,290	$12.82	N/A	N/A
January 1, 2003 – January 31, 2003	0	N/A	N/A	N/A
February 1, 2003 – February 28, 2003	32,268	$ 9.53	N/A	N/A
March 1, 2003 – March 31, 2003	500	$ 9.53	N/A	N/A
Total Q1 2003	32,768	$ 9.53	N/A	N/A

(1) None of the Company’s purchases of its common stock during the fiscal quarters ended March 31, 2004 and 2003 were made pursuant to a publicly announced plan or program. Common stock purchases are made in open-market transactions, and shares purchased are held as treasury stock available for reissue by the Company.

Item 6. EXHIBITS AND REPORTS ON FORM 8 K

(A) Exhibits pursuant to Item 601 of Regulation S-K

31.1	Rule 13a-14(a) Certifications of Paul D. Arling, Chief Executive Officer of Universal Electronics Inc.
31.2	Rule 13a-14(a) Certifications of Bernard J. Pitz, Chief Financial Officer of Universal Electronics Inc.
32	Section 1350 Certifications of Paul D. Arling, Chief Executive Officer of Universal Electronics Inc., and Bernard J. Pitz, Chief Financial Officer of Universal Electronics Inc. pursuant to 18 U.S.C. Section 1350

(B) Reports on Form 8-K

On January 29, 2004 the Company filed a Form 8-K with respect to its financial results for the quarter and year ended December 31, 2003.

On April 29, 2004, the Company filed a Form 8-K with respect to its financial results for the quarter ended March 31, 2004.

SIGNATURE

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

Date: May 10, 2004

Universal Electronics Inc.

\s\ Bernard J. Pitz

Bernard J. Pitz
Senior Vice President, Chief Financial Officer and Treasurer

EXHIBIT INDEX

Exhibit No.	Description
31.1	Rule 13a-14(a) Certifications of Paul D. Arling, Chief Executive Officer of Universal Electronics Inc.
31.2	Rule 13a-14(a) Certifications of Bernard J. Pitz, Chief Financial Officer of Universal Electronics Inc.
32	Section 1350 Certifications of Paul D. Arling, Chief Executive Officer of Universal Electronics Inc., and Bernard J. Pitz, Chief Financial Officer of Universal Electronics Inc. pursuant to 18 U.S.C. Section 1350

Exhibit 31.1

CERTIFICATIONS

I, Paul D. Arling, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) 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) 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

   (c) 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 (the registrant’s fourth fiscal quarter in the case of an annual report) 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 the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses 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: May 10, 2004

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

Exhibit 31.2

CERTIFICATIONS

I, Bernard J. Pitz, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) 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) 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

   (c) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses 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: May 10, 2004

By: /s/ Bernard J. Pitz
Chief Financial Officer

Exhibit 32

SECTION 1350 CERTIFICATIONS

Pursuant to 18 U.S.C. Section 1350, each of the undersigned officers of Universal Electronics Inc. (the “Company”), hereby certifies that the Company’s Form 10-Q for the fiscal quarter ended March 31, 2004 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Dated: May 10, 2004

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

By: /s/ Bernard J. Pitz
Chief Financial Officer

A signed original of this written statement has been provided to Universal Electronics Inc. and will be retained by it and furnished to the Securities and Exchange Commission or its staff upon request.