



**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, 2001
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 0-21044

**UNIVERSAL ELECTRONICS INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation or organization)

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

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

**90630**  
(Zip Code)

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

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

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

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

Yes  No

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

The aggregate market value of the Registrant's outstanding common stock held by non-affiliates of the Registrant on February 28, 2002, determined using the per share closing sale price thereof on the National Market of The NASDAQ Stock Market of \$15.85 on that date, was approximately \$218,800,000.

As of February 28, 2002, 13,804,427 shares of Common Stock, par value \$.01 per share, of the Registrant were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the Registrant's definitive Proxy Statement for its 2002 Annual Meeting of Stockholders to be held on June 19, 2002 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, 2002.

Except as otherwise stated, the information contained in this Form 10-K is as of December 31, 2001.  
Exhibit Index appears on page 50.

---

## TABLE OF CONTENTS

### PART I

ITEM 1. BUSINESS

ITEM 2. PROPERTIES

ITEM 3. LEGAL PROCEEDINGS

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

### PART II

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

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Quarterly Financial Data (Unaudited)

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

### PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

SIGNATURES

EXHIBIT INDEX

EXHIBIT 10.48

EXHIBIT 21.1

EXHIBIT 23.1

---

**UNIVERSAL ELECTRONICS INC.**  
**Annual Report on Form 10-K**  
**For the Fiscal Year Ended December 31, 2001**

**Table of Contents**

| <u>Item<br/>Number</u> |   | <u>Page<br/>Number</u> |
|------------------------|---|------------------------|
| <b>PART I</b>          |   |                        |
| 1                      | Business  | 3                      |
| 2                      | Properties  | 7                      |
| 3                      | Legal Proceedings   | 8                      |
| 4                      | Submission of Matters to a Vote of Security Holders   | 8                      |
| <b>PART II</b>         |   |                        |
| 5                      | Market for Registrant's Common Stock and Related<br>Stockholder Matters                           | 10                     |
| 6                      | Selected Consolidated Financial Data  | 11                     |
| 7                      | Management's Discussion and Analysis of Financial<br>Condition and Results of Operations          | 12                     |
| 7A                     | Quantitative and Qualitative Disclosures About Market Risk  | 25                     |
| 8                      | Financial Statements and Supplementary Data   | 26                     |
| 9                      | Changes in and Disagreements with Accountants on<br>Accounting and Financial Disclosure           | 47                     |
| <b>PART III</b>        |   |                        |
| 10                     | Directors and Executive Officers of the Registrant  | 47                     |
| 11                     | Executive Compensation  | 47                     |
| 12                     | Security Ownership of Certain Beneficial Owners<br>and Management and Related Stockholder Matters | 47                     |
| 13                     | Certain Relationships and Related Transactions  | 48                     |
| <b>PART IV</b>         |   |                        |
| 14                     | Exhibits, Financial Statement Schedule and Reports<br>on Form 8-K                                 | 48                     |
|                        | Signatures  | 49                     |
|                        | Exhibit Index   | 50                     |

---

## PART I

### ITEM 1. BUSINESS

#### Business of Universal Electronics Inc.

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

Universal develops software and builds and markets pre-programmed, easy-to-use wireless control devices and chips principally for home entertainment equipment and the subscription broadcasting market. Universal’s product lines include wireless interface technologies, such as combination keyboard/remotes and touch-screen remotes. Universal licenses its patented technologies and database of infrared (“IR”) codes to companies selling into the cable and satellite industries and to original equipment manufacturers (“OEMs”). Universal also sells its universal wireless control products to distributors and retailers in Europe, Asia, Latin America and Australia under the *One For All*® brand name. Call center support services are also offered to Universal’s customers. To learn more, visit Universal’s web site at [www.uei.com](http://www.uei.com).

#### General Business Information

Universal has developed a broad line of easy-to-use, preprogrammed universal wireless control products which are marketed principally for home video and audio entertainment equipment through various channels of distribution, including international retail, private label, OEMs, and cable and satellite service providers. Universal believes that its universal wireless controls can operate virtually all infrared remote controlled TV’s, VCR’s, DVD players, cable converters, CD players, audio components and satellite receivers, as well as most other infrared remote controlled devices worldwide.

Universal also believes its wireless control products incorporate certain significant technological advantages. First, Universal has compiled an extensive library of over 118,000 infrared codes that cover nearly 100,000 individual device functions and over 1,500 individual consumer electronic equipment brand names. Universal believes its database of infrared codes is larger than any other existing library of infrared codes for the operation of home video and audio devices sold worldwide. Universal’s library is regularly updated with new infrared codes used in newly introduced video and audio devices. All such infrared codes are captured from the original manufacturer’s remote control devices to ensure the accuracy and integrity of the database. Second, Universal’s proprietary software and know-how permit infrared codes to be compressed before being loaded into a Read Only Memory (“ROM”), Random Access Memory (“RAM”) or an electronically erasable programmable ROM (“E2”) chip. This provides significant cost and space efficiencies that enable Universal to include more codes and features in the limited memory space of the chip than are included in similarly priced products of competitors. Third, Universal has developed a patented technology that provides the capability to easily upgrade the memory of the remote control by adding codes from its library that were not originally included. This technology utilizes both RAM and E2 chip technologies.

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

#### Products

Universal introduced its first product, the *One For All*, in 1987. Universal’s family of products includes universal standard and touch screen remote controls, wireless keyboards, antennas, joysticks and other gaming devices, custom and customizable chips that include Universal’s library of codes and proprietary software, and licensing of Universal’s library of codes and proprietary software. These products cover a broad spectrum of suggested prices and performance capabilities. Universal sells its customized products to international retailers and distributors, consumer electronic accessory suppliers, private label customers, OEMs, cable operators and satellite service providers for resale under the *One For All*®

## Table of Contents

brand name and/or their respective brand names. Universal's products are capable of controlling from one to fifteen video and audio devices, including, but not limited to, TVs, VCRs, DVD players, cable converters, CD players, satellite receivers, laser disc players, amplifiers, tuners, turntables, cassette players, digital audio tape players, and surround sound systems.

Each of Universal's wireless control devices is designed to simplify the use of video and audio devices. To appeal to the mass market, the number of buttons is minimized to include only what Universal believes to be the most popular functions. Universal's remotes are also designed for ease of initial set-up. For most of Universal's products, the consumer simply inputs a three or four-digit code for each video or audio device to be controlled. Each remote contains a RAM, a ROM, or a combination of ROM and E2 chips. The RAM and the ROM and E2 combination products allow the remote to be upgraded with additional codes, one of Universal's patented features. Another proprietary ease of use feature Universal offers in several of its universal remote controls is its patented 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.

Many of Universal's products include its patented and highly proprietary and patented upgradeability feature. This feature provides the user with the capability to easily upgrade the memory of the remote control by adding codes from its library that were not originally included. Each of these products utilizes the E2 chip technology and, as a result of other improvements, also retains memory while changing batteries which eliminates the inconvenience experienced by consumers of having to set up the remote control each time the batteries are changed.

By providing its wireless control technology in many forms, including finished products, integrated circuits on which Universal's software is embedded, or custom software packages, Universal can meet the needs of its customers, enabling those who manufacture or subcontract their manufacturing requirements to use existing sources of supply and more easily incorporate Universal's technology. In addition, Universal's products are easily customized to include the features that are important to customers. These may include keys to control electronic program guides, one-button VCR record keys, customized macro set-up keys, and/or other features.

### **Distribution and Customers**

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

For the year ended December 31, 2001, there were no customers with sales representing more than 10% of Universal's net sales for the year.

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

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

Universal continues to pursue further penetration of the more traditional consumer electronics/OEM markets. Customers in these markets generally package Universal's wireless control devices for resale with their audio and video home entertainment products (i.e. TVs, DVD and CD players, VCRs, personal digital recorders, etc.). Universal also sells customized chips, which include the Company's software and/or customized software packages to these customers. Growth in this line of business has been driven by the proliferation and increasing complexity of home entertainment equipment,

## Table of Contents

emerging digital technology, the increase in multimedia and interactive internet applications, and the increase in the number of OEMs.

Universal continues to place significant emphasis on expanding its sales and marketing efforts to subscription broadcasters and OEMs in Asia, Latin America and Europe. Universal added a cable sales representative for Latin America and an OEM sales representative for Asia in 2001 and will continue to add new sales people, as required, to support anticipated sales growth in both of these markets over the next few years. In addition, Universal continues to improve on its development processes to increase cost savings and to provide more timely delivery of its products to its customers.

In the international markets, *One For All* brand name products accounted for 21.2%, 18.8%, and 23.7% of Universal's sales for the years ended December 31, 2001, 2000, and 1999, respectively. Throughout 2001, Universal continued its retail sales and marketing efforts in Europe, Australia, New Zealand, South Africa, Mexico and selected countries in Asia and Latin America. Universal has seven international subsidiaries, Universal Electronics B.V., established in The Netherlands, One For All GmbH and Ultra Control Consumer Electronics GmbH, both established in Germany, One for All Iberia S.L., established in Spain, One For All (UK) Ltd., established in the United Kingdom, One For All Argentina S.R.L., established in Argentina, and One For All France S.A.S., established in France.

In the first quarter of 1998, Universal acquired substantially all of the remote control business of one of its distributors in the United Kingdom (One For All (UK) Ltd.). In the third quarter of 1999, Universal acquired a remote control distributor in Spain (One For All Iberia S.L.). During the third quarter of 2000, Universal established an office in Argentina (One For All Argentina S.R.L.) and also completed its acquisition of a remote control distributor in France (One For All France S.A.S.). Universal utilizes third party distributors in certain other countries where it does not have subsidiaries.

### **Consumer Service and Support**

Universal provides consumer support programs to its various universal remote control marketers, including manufacturers, cable and satellite providers, retail distributors, and audio and video original equipment manufacturers. Throughout 2001, Universal continued its strategy to review its consumer support program and modify its "help line" service such that the majority of calls received are directed through its automated "InterVoice" system. Live agent help is also available through certain programs. Universal continues to review its programs to determine their value in enhancing and improving the sales of Universal's 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. Revenues from this service in 2001 and 2000 were not material to the consolidated financial statements.

### **Raw Materials and Dependence on Suppliers**

Universal utilizes third-party manufacturers and suppliers in the Far East, Mexico and the United States to produce its wireless control products. The number of third party manufacturers or suppliers that provided Universal in excess of 10% of its manufacturing services and/or components were three, three and two for 2001, 2000, and 1999, respectively. In 2001 and 2000, Philips, Jetta and Samsung collectively represented 43% and 45%, respectively, of Universal's manufacturing services and components. In 1999, Philips and Motorola collectively represented 30% of Universal's manufacturing services and components. As in the past, Universal continues to evaluate alternative and additional third-party manufacturers and sources of supply.

During 2001, Universal continued to diversify its suppliers and maintain duplicate tooling for certain of its products. The purpose of this program is to allow Universal to stabilize its source for products and negotiate more favorable terms with its suppliers. In addition, where it can, Universal uses standard parts and components, which are available from multiple sources. To continue to reduce its dependence on suppliers, Universal continues to seek other sources for integrated circuit chips to help reduce the potential for manufacturing and shipping delays and to help maintain additional inventory of these component parts as safety stock by purchasing some of its chips from a variety of sources.

### **Patents, Trademarks and Copyrights**

Universal owns a number of United States and international patents relating to its products and technology, has filed applications for other patents that are pending, and has obtained copyright registration for certain of its proprietary software and libraries of infrared codes. Universal had a total of 66 issued and pending patents at the end of 2001, an increase from 48 at the end of 2000. The life of Universal's patents ranges from 6 to 18 years. While Universal follows the practice of obtaining patents or copyright registration on new developments whenever advisable, in certain cases, Universal has elected common law trade secret protection in lieu of obtaining such protection. In Universal's opinion, engineering and production skills and experience are of equal importance to its market positions as patents and copyrights. Universal further believes that none of its business is dependent to any material extent upon any single patent or trade secret. The names of most of Universal's products are registered or are being registered as trademarks in the United States Patent and Trademark Office and in most of the other countries in which such products are sold. These registrations are valid for a variety of terms ranging from 10 to 20 years, which terms are renewable as long as the trademarks continue to be used and are deemed by management to be important to Universal's operations.

### **Seasonality**

Historically, Universal's business has been influenced by the retail sales cycle, with increased sales in the last half of the year and the largest proportion of sales occurring in the last quarter. However, the growth in Universal's subscription broadcasting and OEM products has outpaced the growth in its retail products and, consequently, the retail seasonality has and will continue to have much less of an effect on the Company's revenue.

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

### **Competition**

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

### **Engineering, Research and Development**

During 2001, Universal's engineering efforts focused on modifying existing products and technology to improve their features and lower their costs, and to develop measures to protect the Company's proprietary technology and general know-how. In addition, Universal continues to regularly update its library of infrared codes to include codes for features and devices newly introduced both in the United States and internationally. Universal's library contains 118,000 infrared data codes, an increase from just over 100,000 data codes in 2000. Universal also continues to explore ways to improve its software to preprogram more codes into its memory chips and to simplify the upgrading of its wireless control products.

Also during 2001, Universal's research and development efforts continued to focus on the development of new and innovative wireless control devices with enhanced capabilities, as well as new applications of wireless control technology.

Universal is also exploring various opportunities to supply wireless control devices for the operation of additional electronic and other devices in the home using infrared signals, as well as combinations of infrared signals, radio frequencies, household electrical circuits and telephone lines. Company personnel are actively involved with various industry organizations and bodies, which are in the process of setting standards for infrared, radio frequency, power line, telephone and cable communications and networking in the home. There can be no assurance that any of the Company's research and development projects will be successfully completed.

## Table of Contents

Universal's engineering, research and development departments, located in Cypress, California, had approximately 71 full-time employees at December 31, 2001. Universal's expenditures on engineering, research and development in 2001, 2000, and 1999 were \$5.6, \$4.5 million and \$3.9 million, respectively, of which approximately \$4.2 million, \$3.3 million, and \$2.9 million, respectively, was for research and development.

### **Environmental Matters**

Universal believes it has materially complied with all currently existing federal, state and local statutes and regulations regarding environmental standards and occupational safety and health matters to which it is subject. During the years ended December 31, 2001, 2000 and 1999, 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 Universal's 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 the capital expenditures, earnings or financial condition of the Company.

### **Employees**

At December 31, 2001, Universal employed approximately 314 employees, of whom 71 were in engineering, research and development, 69 in sales and marketing, 106 in consumer service and support, 20 in operations and warehousing and 48 in executive and administrative staff. None of Universal's employees is subject to a collective bargaining agreement or is represented by a union. Universal considers its employee relations to be good.

### **International Operations**

Financial information relating to Universal's international operations for the years ended December 31, 2001, 2000 and 1999 is included in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-Notes to Consolidated Financial Statements-Note 16".

## **ITEM 2. PROPERTIES**

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

| <u>Location</u>       | <u>Purpose or Use</u>  | <u>Square Feet</u> | <u>Status</u>                      |
|-----------------------|--|--------------------|------------------------------------|
| Twinsburg, Ohio       | Consumer and customer call center  | 8,509              | Leased, expires July 31, 2005      |
| Cypress, California   | Corporate headquarters, warehouse, engineering, research and development | 33,268             | Leased, expires December 31, 2003  |
| Enschede, Netherlands | International headquarters   | 9,149              | Leased, expires August 2002        |
| Enschede, Netherlands | International consumer call center                                       | 5,400              | Leased, expires September 30, 2002 |

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

**ITEM 3. LEGAL PROCEEDINGS**

On November 15, 2000, Universal filed suit against U.S. Electronics alleging that U.S. Electronics infringed certain of the Company's patents (Universal Electronics Inc. v. U.S. Electronics, Civil Action No. SACV 00-1127 DOC (EEx)). Universal was seeking damages and injunctive relief. On December 17, 2001, the parties entered into a Settlement and Patent License Agreement to settle all claims and counterclaims and as part of the settlement, the parties have entered into a non-exclusive license agreement involving certain Universal Electronics' patents.

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

On November 15, 2000, Universal filed suit against Contec LLC alleging that Contec has infringed certain of the Company's patents (Universal Electronics Inc. v. Contec LLC, Civil Action No. SACV 00-1126 GLT (EEx)). Universal is seeking damages and injunctive relief. Contec has answered the Complaint and has denied infringement.

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

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

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

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

**Executive Officers of the Registrant\***

The following table sets forth certain information concerning the executive officers of Universal as of February 28, 2002:

| <u>Name</u>                | <u>Age</u> | <u>Position</u>                                       |
|----------------------------|------------|---|
| Paul D. Arling             | 39         | Chairman of the Board and Chief Executive Officer     |
| Robert P. Lilleness        | 35         | President and Chief Operating Officer                 |
| J. Stewart Ames            | 43         | Senior Vice President                                 |
| Jerry L. Bardin            | 63         | Senior Vice President                                 |
| Mark Z. Belzowski          | 43         | Vice President, Chief Financial Officer and Treasurer |
| Paul J.M. Bennett          | 46         | Senior Vice President, Managing Director, Europe      |
| Richard A. Firehammer, Jr. | 44         | Senior Vice President, General Counsel and Secretary  |

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

## Table of Contents

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

*Robert P. Lilleness* joined Universal Electronics Inc., as President and Chief Operating Officer in May 2001. Prior to joining Universal, he served as Vice President of Product Management and Marketing at Trilogy Software Inc. from June 1998 to May 2001, a privately held company based in Austin, Texas that develops and markets e-business software for Global 2000 corporations. Before Trilogy, Lilleness worked for Microsoft Corporation (NASDAQ: MSFT) from February 1993 to May 1998, in a number of marketing, management and operational roles. Prior to working for Microsoft, Lilleness served as an auditor for Ernst and Young in Zurich, Switzerland. Lilleness received his undergraduate degree from the University of Puget Sound and holds an MBA from Harvard University.

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

*Jerry L. Bardin* has been Senior Vice President of Engineering and Operations since joining Universal in August 1998. Prior to joining UEI, Mr. Bardin was with Science Applications International Corp. (SAIC), a high technology research and engineering company for 15 years serving in several executive management and consulting positions. Mr. Bardin earned his BS and Master of Science in Electrical Engineering at the University of Texas at Austin.

*Mark Z. Belzowski* has been the Chief Financial Officer and Treasurer of Universal since January 2000. He has been a Vice President and the Corporate Controller of Universal since May 1998 when he joined the Company. From February 1997 through April 1998, he was a financial management consultant for various companies including a cellular reseller and a local area network switch manufacturer. From September 1994 through January 1997, he was Vice President Controller in the Turner Entertainment Group, a division of Turner Broadcasting Systems, Inc. From September 1988 through August 1994, he served in various capacities at Orion Pictures Corporation with the most recent being Vice President Corporate Controller. Prior to that, Mr. Belzowski was a Senior Auditor with Ernst and Young. He is a certified public accountant in the state of California. Mr. Belzowski obtained a BS degree from California State University at Fullerton.

*Paul J.M. Bennett* has been Managing Director and Senior Vice President responsible for international retail and European OEM, Cable and Satellite business lines since July 1996. Prior to joining Universal, Mr. Bennett 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. Mr. Bennett 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 Senior Vice President of Universal since being rehired by the Company in February 1999. He has been Universal's General Counsel since October 1993 and Secretary since February 1994. He was Universal's Vice President from May 1997 until August 1998. 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. Mr. Firehammer 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 STOCK AND RELATED STOCKHOLDER MATTERS**

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

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

|                | 2001      |           | 2000      |           |
|----------------|-----------|-----------|-----------|-----------|
|                | High      | Low       | High      | Low       |
| First Quarter  | \$21.1250 | \$13.5312 | \$32.3125 | \$14.7500 |
| Second Quarter | 23.7500   | 15.2600   | 27.0000   | 14.5000   |
| Third Quarter  | 18.1000   | 12.7500   | 25.6250   | 16.6250   |
| Fourth Quarter | 18.0000   | 14.0000   | 24.1875   | 12.8750   |

Stockholders of record on February 28, 2002 numbered approximately 127.

Universal has never paid cash dividends on its common stock and does not intend to pay cash dividends on its common stock in the foreseeable future. Universal intends to retain its earnings, if any, for the future operation and expansion of its business. In addition, the terms of Universal's revolving credit facility limit the Company's ability to pay cash dividends on its common stock. See "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS-Liquidity and Capital Resources" and "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-Notes to Consolidated Financial Statements-Note 7."

**Recent Sales of Unregistered Securities**

On November 9, 1998, Universal issued a warrant to purchase Company common stock to General Instrument Corporation as consideration for entering into an exclusive supply agreement with the Company. The warrant was contingent upon General Instrument Corporation (subsequently merged with Motorola in 2000) purchasing a specified minimum number of units of products from Universal for each of the calendar years 1999, 2000 and 2001. In 2001, 2000 and 1999, General Instrument Corporation failed to purchase the minimum requirements for each year. As such, the warrant expired and General Instrument Corporation forfeited its right to acquire up to 600,000 shares of Company common stock, at an exercise price of \$6.3125 per share, and may not recoup such right through the purchase of products in any subsequent years. Registration under the Securities Act of 1933 was not affected with respect to the warrant in reliance upon the exemption from registration contained in Section 4(2) of the Securities Act of 1933.



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

We develop software and build and market pre-programmed, easy-to-use wireless control devices and chips principally for home entertainment equipment and the subscription broadcasting market. Our product lines include such wireless interface technologies as combination keyboard/remotes and touch-screen remotes. We license our patented technologies and database of infrared codes to companies selling into the cable and satellite industries and to original equipment manufacturers. We also sell our universal wireless control products to distributors and retailers in Europe, Asia, Latin America and Australia under the *One For All*® brand name. We also offer call center support services to our customers.

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

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; 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 throughout 2002 and beyond; the failure of the various markets and industries to grow or emerge as rapidly or as successfully as we believed; the continued growth of the digital market; our inability to obtain orders or maintain our order volume with new and existing customers; the possible dilutive effect our stock option program may have on our earnings per share and stock price; our inability to continue to obtain adequate quantities of component parts or secure adequate factory production capacity on a timely basis; and other factors listed from time to time in our press releases and filings with the Securities and Exchange Commission.

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

### Critical Accounting Policies and Estimates

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

## Table of Contents

*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, collectibility is reasonably assured and customer acceptance criteria have been successfully demonstrated. Product revenue is recognized upon shipment when the customer acceptance can be demonstrated prior to shipment. For sales of new products or when the customer acceptance criteria cannot be demonstrated prior to shipment, revenue and the related cost of goods sold are deferred until customer acceptance. For the majority of our sales, recognition occurs when products are shipped. 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 overstated.

*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 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, goodwill and other intangible assets.* We assess the impairment of long-lived assets, goodwill and other intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which could trigger an impairment review include the following (1) significant underperformance relative to expected historical or projected future operating results; (2) significant changes in the manner of our use of the acquired 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) 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 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 for these assets not previously recorded.

In 2002, Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" became effective and as a result, we will cease to amortize approximately \$3.0 million of net unamortized goodwill. We recorded approximately \$565,000 of amortization during 2001 and would have recorded approximately \$565,000 of amortization during 2002. In lieu of amortization, we are required to perform an initial impairment review of our goodwill in 2002 and an annual impairment review thereafter. We expect to complete our initial review during the second quarter of 2002. Currently, we do not expect to record an impairment charge upon completion of the initial impairment review. However, there can be no assurance that at the time the review is completed, a material impairment charge will not be recorded.

## [Table of Contents](#)

*Income Taxes.* Income tax expense includes U.S. and international income taxes. The carrying value of our net deferred tax assets assumes that we will be able to generate sufficient future taxable income in certain tax jurisdictions, based on estimates and assumptions. If these estimates and related assumptions change in the future, we may be required to record valuation allowances against the deferred tax assets resulting in additional income tax expense in the Company's consolidated income statements. We evaluate the realizability of the deferred tax assets quarterly and assess the need for valuation allowances quarterly. In the event that we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the net deferred tax asset would be charged to income in the period such determination was made.

## Results of Operations

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

|  | Year Ended December 31, |        |        |
|--|-------------------------|--------|--------|
|  | 2001                    | 2000   | 1999   |
| Net sales                                    | 100.0%                  | 100.0% | 100.0% |
| Cost of sales                                | 58.8                    | 58.7   | 58.7   |
| Gross profit                                 | 41.2                    | 41.3   | 41.3   |
| Selling, general and administrative expenses | 27.8                    | 26.7   | 28.9   |
| Operating income                             | 13.4                    | 14.6   | 12.4   |
| Interest income, net                         | (0.8)                   | (0.8)  | (0.1)  |
| Other income, net                            | (0.2)                   | (0.4)  | 0.0    |
| Income before income taxes                   | 14.4                    | 15.8   | 12.5   |
| Provision for income taxes                   | 4.9                     | 6.5    | 5.1    |
| Net income                                   | 9.5%                    | 9.3%   | 7.4%   |

### Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Net sales for the twelve months ended December 31, 2001 were \$119.0 million, a decrease of 4.6% over the net sales of \$124.7 million for the same period last year. Net income for 2001 was \$11.3 million or \$0.82 per share (basic) and \$0.78 per share (diluted) compared to \$11.6 million or \$0.84 per share (basic) and \$0.78 per share (diluted) for 2000.

Net sales in the our technology lines (subscription broadcasting, OEM and private label) in 2001 decreased by \$7.9 million, or 7.9%, to \$91.8 million from \$99.7 million in 2000. Net sales in the our technology lines were approximately 77.1% of net sales in 2001 compared to 79.9% in 2000. Sales to subscription broadcasting service providers and OEMs decreased by \$8.6 million, or 9.6%, from \$90.2 million in 2000 to \$81.6 million in 2001. This decrease was principally due to reductions in overall spending by our traditional OEM customers and a lower rate of digital set top box deployment during 2001 resulting in reduced orders from some of our major subscription broadcasting and cable set top box OEM customers. Private label sales decreased by \$1.0 million, or 11.5%, from \$8.7 million in 2000 to \$7.7 million in 2001 due to decreased consumer demand for these products in 2001.

Net sales from the retail lines (*One For All*® international retail and direct import) increased \$2.2 million, or 8.8%, from \$25.0 million in 2000 to \$27.2 million in 2001. Net sales from the retail lines accounted for approximately 22.9% of total 2001 net sales compared to 20.1% in 2000. The *One For All*® international retail sales increase of \$1.8 million, or 7.8%, from \$23.4 million in 2000 to \$25.2 million in 2001, is primarily due to increased demand from retailers in the UK, France, Latin America and Australia. Direct import (licensing) revenues increased by \$0.4 million or 25.7% from \$1.6 million in 2000 to \$2.0 million in 2001.

## [Table of Contents](#)

Gross profit was \$49.1 million or 41.2% of net sales in 2001 as compared to \$51.6 million or 41.3% of net sales in 2000.

Selling, general and administrative expenses decreased to \$33.1 million in 2001, compared to \$33.3 million in 2000 primarily due to an ongoing effort to contain and minimize our costs. This decrease was attributable to reduced delivery and freight expenses, reduced professional fees and an overall decrease in payroll, commission and bonus-related costs, partially offset by increased advertising costs and bad debt expenses. As a percentage of net sales, selling, general and administrative expense was 27.8% in 2001 compared to 26.7% in 2000.

Delivery and freight expenses decreased \$0.7 million, from \$2.9 million in 2000 to \$2.2 million in 2001, as a result of lower sales volumes along with increased use of less expensive delivery methods and aggressive negotiations with our freight vendors, which have resulted in increased shipping operating efficiencies. Professional fees decreased from \$1.7 million in 2000 to \$1.0 million in 2001. This decrease was primarily due to higher costs in 2000 relating to our corporate development activity including evaluation of potential acquisitions as compared to 2001. Employee payroll, bonus, commission and related fringe costs were \$14.5 million in 2001 compared to \$14.7 million in 2000, an overall decrease of \$.2 million, principally due to reduced bonus and commission costs as a result of lower sales, partially offset by additional hiring of personnel in technology development, engineering and sales. Advertising, promotional and tradeshow expenses increased from \$1.7 million in 2000 to \$2.1 million in 2001 in an intensified effort to promote our technology and products. During 2000, we recorded income of \$0.5 million as an offset to bad debt expense to reflect the settlement and collection of an older U.S. retail receivable, previously fully reserved.

Interest income increased by \$66,000 in 2001 to \$987,000 as compared to \$921,000 in 2000 due to interest earned on higher accumulated cash balances in 2001.

Other income decreased by \$353,000 to \$147,000 in 2001 compared to \$500,000 in 2000. This decrease is primarily due to devaluation of the European currencies against the U.S. dollar, partially offset by the favorable settlement of foreign currency exchange agreements we entered into to manage our exposure on cash flows.

We recorded income tax expense of \$5.9 million for 2001 compared to \$8.1 million for 2000. The decrease is a result of lower pretax income and a reduction in tax expense of approximately \$1.0 million recorded in 2001 related to research and development credits identified as part of an analysis of our qualified research and development expenditures. We may continue to benefit from any identified research and development credits in future periods. Our effective tax rate was reduced from 41% in 2000 to 34% in 2001.

### **Year Ended December 31, 2000 Compared to Year Ended December 31, 1999**

Net sales for the twelve months ended December 31, 2000 were \$124.7 million, an increase of 18.7% over the net sales of \$105.1 million for the same period in 1999. Net income for 2000 was \$11.6 million or \$0.84 per share (basic) and \$0.78 per share (diluted) compared to \$7.7 million or \$0.58 per share (basic) and \$0.55 per share (diluted) for 1999.

Net sales in the our technology lines (subscription broadcasting, OEM and private label) in 2000 increased by \$21.5 million, or 27.5%, to \$99.7 million from \$78.2 million in 1999. Net sales in the our technology lines were approximately 79.9% of net sales in 2000 compared to 74.4% in 1999. Sales to subscription broadcasting service providers and OEMs increased by \$23.0 million, or 34.2%, from \$67.2 million in 1999 to \$90.2 million in 2000, principally due to the continued deployment of digital set top boxes by our U.S. cable customers, growth in the European satellite service market and increased demand in the US and European OEM markets. Private label sales decreased by \$2.3 million, or 20.5%, from \$11.0 million in 1999 to \$8.7 million in 2000, due to decreased demand for products in 2000.

Net sales from the retail lines (*One For All*® international retail, *Eversafe* and direct import) decreased \$1.9 million, or 6.9%, from \$26.9 million in 1999 to \$25.0 million in 2000. Net sales from the retail lines accounted for approximately 20.1% of total 2000 net sales compared to 25.6% in 1999. *One For All*® international retail sales decreased by \$1.5 million, or 6.0%, from \$24.9 million in 1999 to \$23.4 million in 2000 due primarily to reduced

## [Table of Contents](#)

orders from major retail customers in England and Germany, and the unfavorable effect of the loss in value of the European currencies against the U.S. dollar. Revenue in the *Eversafe* line of products decreased by \$0.5 million, or 93.8%, from \$563,000 in 1999 to \$35,000 in 2000 as the Company discontinued the sale of product in this direct domestic retail line. Direct import sales increased by \$0.2 million or 13.0% from \$1.4 million in 1999 to \$1.6 million in 2000.

Gross profit was \$51.6 million in 2000 as compared to \$43.4 million in 1999, or 41.3% of net sales in both years.

Selling, general and administrative expenses increased to \$33.3 million in 2000, compared to \$30.4 million in 1999. As a percentage of net sales, selling, general and administrative expenses improved to 26.7% in 2000 compared to 28.9% in 1999. The increase was attributable to increased delivery and freight expenses, increased payroll and bonus-related costs, and increased professional fees, partially offset by reduced bad debt and telephone expenses. Delivery and freight expenses increased \$1.4 million, from \$1.5 million in 1999 to \$2.9 million in 2000, primarily due to higher sales volumes and increased use of air shipments to meet customer demand. Employee payroll, bonus, and related fringe costs were \$14.7 million in 2000 compared to \$12.7 million in 1999, an increase of \$2.0 million, principally due to additional hiring of personnel in technology development and sales as well as higher management bonuses and employee profit sharing payments based on our stronger performance in 2000. Professional fees primarily associated with our corporate development activity including acquisitions and evaluation of acquisition candidates resulted in an increase of \$0.8 million to \$1.7 million in 2000 compared to \$0.9 million in 1999. We recorded income of \$0.5 million as an offset to bad debt expense to reflect the settlement and collection of an older U.S. retail receivable, previously fully reserved. Telephone costs decreased by \$0.5 million in 2000 compared to 1999 due primarily to rate reductions as a result of increased provider competition and the implementation of more efficient telephone systems and consumer support programs.

Interest income increased by \$0.8 million in 2000 to \$0.9 million as compared to \$0.1 million in 1999, primarily due to interest earned on higher accumulated cash balances in 2000.

Other income increased by \$457,000 to \$500,000 in 2000 compared to \$43,000 in 1999. This increase is primarily attributable to the favorable settlement of foreign currency exchange agreements we entered into to manage our exposure on cash flows arising from the devaluation of the European currencies against the U.S. dollar.

We recorded income tax expense of \$8.1 million for 2000 compared to \$5.4 million for the same period of 1999. The increase was due to improved results in 2000. Our effective tax rate was 41% for the years ended 2000 and 1999.

### **Liquidity and Capital Resources**

Universal's principal sources of funds are our operations and bank credit facilities. Cash provided by operating activities for 2001 was \$19.7 million as compared to \$11.4 million in 2000. The increase in cash flow is primarily due to a reduction in accounts receivable resulting from increased collections and a reduction in inventory levels.

On October 23, 1998, we entered into a \$15 million revolving credit agreement with Bank of America National Trust and Savings Association ("B of A"), which was amended on September 19, 2000 (the "Agreement"). Under the Agreement with B of A, we can choose from several interest rate options at our discretion. The interest rate in effect as of December 31, 2001 using the Fixed Rate option as defined in the Agreement, which is intended to approximate B of A's cost of funds, plus an applicable margin, was 3.12%. The applicable margin varies with a range from 1.25% to 2.00% per annum depending on our net income before interest, taxes, depreciation and amortization. At December 31, 2001, the applicable margin was 1.25 percent. The agreement is collateralized by our cash and cash equivalents, accounts receivable, inventory, equipment, and general intangibles. We pay a commitment fee of a maximum rate of 3/16 of 1% per year on the unused portion of the credit line. Under the terms of this Agreement, our ability to pay cash dividends on our common stock is restricted and we are subject to certain financial covenants and other restrictions that are standard for these types of agreements. However, we have authority under this credit facility to acquire up to 1,000,000 shares of our common stock in market purchases and, since the date of this Agreement, we have acquired approximately 410,600 shares of stock, at a cost of approximately \$4,993,270, which we hold as treasury shares available for reissue. Amounts available for borrowing

## Table of Contents

under this credit facility are reduced by the outstanding balance of our import letters of credit. As of December 31, 2001, we had no amounts outstanding under this credit facility and no outstanding import letters of credit. On March 23, 2002, this revolving line of credit expired with no amounts outstanding to the Bank. We intend to enter a new revolving credit agreement with the Bank on terms and conditions that are substantially similar to those set forth above and are in the process of finalizing an agreement.

During 2001, we purchased 301,600 shares of common stock on the open market at a cost of \$4,428,770. There were no open market purchases of our common stock in 2000. We hold shares purchased on the open market as treasury stock and they are available for reissue by the Company. Presently, except for using a small number of these treasury shares to compensate our outside board members, we have no plans to distribute these shares, although we may change these plans if necessary to fulfill our on-going business objectives.

During 2001, we received proceeds of approximately \$1.7 million from the exercise of stock options granted to our current and former employees, as compared to approximately \$592,000 during 2000.

Capital expenditures in 2001, 2000 and 1999 were approximately \$2.6, \$2.8 million and \$1.4 million, respectively. Annual capital expenditures relate primarily to acquiring product tooling each year.

On August 25, 2000, we completed our acquisition of a remote control distributor in France for approximately \$1.8 million, of which \$1.5 million was paid during 2000, \$143,000 was paid during 2001 and the remaining amount will be paid during 2002.

Effective July 1, 1999, we completed our acquisition of a remote control distributor in Spain for \$750,000 in cash. During the first quarter of 1998, we acquired a remote control distributor in the United Kingdom for \$3.0 million in cash, of which \$1.7 million was paid in 1998 and the remaining \$1.3 million was paid in 1999.

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, 2001, we had \$67.4 million of working capital compared to \$58.3 million and \$45.5 million at December 31, 2000 and 1999, respectively. The increase in working capital during 2001 is principally due to increases in accumulated cash and cash equivalents at December 31, 2001.

The following summarizes Universal's contractual obligations at December 31, 2001 and the effect such obligations are expected to have on our liquidity and cash flow in future periods. Other obligations represent the remaining payment for the acquisition of a remote control distributor in France, payments on our note payable and payments to one of our directors for services rendered. See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 17" for additional information regarding related party transactions.

| December 31, 2001<br>(In thousands)       | Payments Due by Period |                     |              |              |                  |
|---|------------------------|---------------------|--------------|--------------|------------------|
|   | Total                  | Less than<br>1 year | 1-3<br>years | 4-5<br>years | After<br>5 years |
| Contractual Obligations                   |                        |                     |              |              |                  |
| Operating Leases                          | \$1,530                | \$ 662              | \$662        | \$206        |                  |
| Other Obligations                         | \$ 682                 | \$ 420              | \$262        | —            | —                |
| <b>Total Contractual Cash Obligations</b> | <b>\$2,212</b>         | <b>\$1,082</b>      | <b>\$924</b> | <b>\$206</b> | <b>\$—</b>       |

It is Universal's 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 capacity will be sufficient to fund current business operations as well as anticipated growth at least through the end of 2002; however, there can be no assurance that this will occur.

### **New Accounting Pronouncements**

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

In accordance with SFAS No. 142, we will cease amortization on approximately \$3.0 million of net unamortized goodwill beginning January 1, 2002. We recorded approximately \$565,000 of amortization during 2001 and would have recorded approximately \$565,000 of amortization during 2002. In lieu of amortization, we are required to perform an initial impairment review of our goodwill in 2002 and an annual impairment review thereafter. We expect to complete our initial review during the second quarter of 2002. Currently, we do not expect to record an impairment charge upon completion of our initial impairment review. However, there can be no assurance that at the time the review is completed, a material impairment charge will not be recorded.

In August 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” This statement supersedes SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of” and applies to all long-lived assets, including discontinued operations. This statement also amends Accounting Principles Board Opinion No. 30, “Reporting Results of Operations — Reporting the Effects of Disposal of a Segment of a Business.” SFAS No. 144 develops one accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale and also addresses the principle implementation issues. The Company is required to adopt the provisions of SFAS No. 144 no later than January 1, 2002. We do not expect the adoption of SFAS No. 144 to have a material impact on our results of operations or financial position.

### **Factors That May Affect Financial Condition And Future Results**

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

While we believe that the forward looking statements made in this report are based on reasonable assumptions, the actual outcome of such statements is subject to a number of risks and uncertainties, including the failure of our markets to continue growing and expanding in the manner we anticipated; the failure of our customers to grow and expand as we anticipated; the effects of natural or other events beyond our control; 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

## [Table of Contents](#)

time, the continued strength of our balance sheet, our inability to continue selling our products or licensing our technologies at higher or profitable margins throughout 2002 and beyond; the failure of the various markets and industries to grow or emerge as rapidly or as successfully as we believed; the continued growth of the digital market; our inability to obtain orders or maintain our order volume with new and existing customers; the possible dilutive effect our stock option program may have on our earnings per share and stock price; our inability to continue to obtain adequate quantities of component parts or secure adequate factory production capacity on a timely basis; and other factors listed from time to time in our press releases and filings with the Securities and Exchange Commission.

### *Dependence Upon Key Suppliers*

Most of the components used in our products are available from multiple sources; however, we have elected to purchase integrated circuit components used in our products, 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 the Company's 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 the 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 product presentations and the loss or acquisition of any significant customers. Historically, our business has been influenced by the retail sales cycle, with increased sales in the last half of the year and the largest proportion of sales occurring in the last quarter. However, the growth in our subscription broadcasting and OEM products has outpaced the growth in our retail products and consequently, retail seasonality has and will continue to have much less of an effect on our revenue. Factors such as quarterly variations in financial results could adversely affect the market price of our common stock and cause it to fluctuate substantially. In addition, we (i) may from time to time increase our operating expenses to fund greater levels of research and development, increase our sales and marketing activities, develop new distribution channels, improve our operational and financial systems and broaden our customer support capabilities and (ii) may incur significant operating expenses associated with any new acquisitions. To the extent that such expenses precede or are not subsequently followed by increased revenues, our business, operating results, financial condition and cash flows will be materially adversely affected.

We may experience significant fluctuations in future quarterly operating results that may be caused by many factors, including demand for products, introduction or enhancement of products by us and our competitors, the loss or acquisition of any significant customers, market acceptance of new products, price reductions by us or our competitors, mix of distribution channels through which products are sold, level of product returns, mix of customers and products sold, component pricing, mix of international and domestic revenues, and general economic conditions. In addition, as a strategic response to changes in the competitive environment, we may from time to

## Table of Contents

time make certain pricing or marketing decisions or acquisitions that could have a material adverse effect on our business, results of operations or financial condition. As a result, we believe that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance.

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

### *Dependence on Consumer Preference*

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

### *Dependence Upon Timely Product Introduction*

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

In addition, the introduction of new products that we may introduce in the future may require the expenditure of a significant amount of funds for research and development, tooling, manufacturing processes, inventory and marketing. In order to achieve high volume production of any new product, we may have to make substantial investments in inventory and expand its 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 supplies our products to our wholly owned, non-U.S. subsidiaries and to independent foreign distributors, who in turn distribute our products worldwide, with Europe, Australia, New Zealand, Mexico and selected countries in Asia and Latin America currently representing our principal foreign markets. Although there were no customers that acquired more than ten percent of the our products in 2001, the future loss of any key customer either in the United States or abroad due to the financial weakness or bankruptcy of any such customer or our inability to obtain orders or maintain our order volume with our major customers may have an adverse effect on our financial condition, results of operations and cash flows.

### *Competition*

The wireless control industry is characterized by intense competition based primarily on product availability, price, and speed of delivery, ability to tailor specific solutions to customer needs, quality and depth of product lines. Our competition is fragmented across our product lines, and accordingly, we do not compete with any one company across all product lines. We compete with a variety of entities, some of which have greater financial and other resources. Our ability to remain competitive in this industry depends in part on our ability to successfully identify

## Table of Contents

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.

### *Potential for Litigation*

As is typical in our industry and the nature and kind of business in which we are engaged, from time to time, various claims, charges and litigation are asserted or commenced by third parties against us or by us against third parties, arising from or related to product liability, infringement of patent or other intellectual property rights, breach of warranty, contractual relations, or employee relations. The amounts claimed may be substantial but may not bear any reasonable relationship to the merits of the claims or the extent of any real risk of court awards. In the fourth quarter of 2000, we filed lawsuits against four separate companies claiming that each of the four companies is infringing certain of our patents. Two of the lawsuits have been settled. In these actions, we are seeking money damages and injunctive relief. While it is the opinion of management that our products do not infringe any third party's patent or other intellectual property rights, the costs associated with defending or pursuing any such claims or litigation, including the matters discussed in this Annual Report on Form 10-K, could be substantial and amounts awarded as final judgments, if any, in any such potential or pending litigation, could have a significant and material adverse effect on our financial condition, results of operations and cash flows.

### *Effects on Universal Due to International Operations*

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

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

### *General Economic Conditions*

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

## [Table of Contents](#)

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

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

## Outlook

Our focus has been and will continue to be throughout 2002, the enhancement of our leadership position 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 will also continue to invest in our database of device codes by analyzing OEM products for inclusion into our library as we keep our commitment to maintaining a worldwide infrared code library. In addition to our device code database, we will continue to invest in novel intellectual property to fortify our position in the market.

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

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

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

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to various market risks, including interest rate and foreign currency exchange rate fluctuations. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks. The interest payable under our revolving credit agreement with our bank is variable and generally based on either the bank's cost of funds, or the IBOR rate, and is affected by changes in market interest rates. At December 31, 2001, we had no borrowings on our credit line. The interest rate in effect on the credit line using the bank's cost of funds rate as the base as of December 31, 2001 was 3.12%. On March 23, 2002, this revolving line of credit expired with no amounts outstanding to the Bank. We intend to enter into a new revolving credit agreement with the Bank on terms and conditions substantially similar to the aforementioned agreement and are in the process of finalizing an agreement. We have 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, Dutch Guilders, British Pounds, German Marks, French Francs, Argentine Pesos and Spanish Pesetas thereby creating exposures to changes in exchange rates. Changes in the local currencies/U.S. Dollars exchange rate may positively or negatively affect our sales, gross margins and retained earnings. From time to time, we enter into foreign currency exchange agreements to manage our exposure arising from fluctuating exchange rates that affect cash flows. We had no forward exchange contracts outstanding at December 31, 2001. We do not enter into any derivative transactions for speculative purposes. The sensitivity of earnings and cash flows to variability in exchange rates is assessed by applying an approximate range of potential rate fluctuations to our assets, obligations and projected results of operations denominated in foreign currencies. Based on our overall foreign currency rate exposure at December 31, 2001, we believe that movements in foreign currency rates should not materially affect our financial position, although no assurance can be made that any such foreign currency rate movements in the future will not have a material effect. Because of the foregoing factors (Factors That May Affect Financial Condition and Future Results and Quantitative and Qualitative Disclosures About Market Risk), as well as other variables that affect our operating results, past financial performance should not be considered a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

|  | <b>Page</b> |
|--|-------------|
| Report of Independent Accountants  | 27          |
| Consolidated Balance Sheets at December 31, 2001 and 2000  | 28          |
| Consolidated Income Statements for the years ended December 31, 2001, 2000 and 1999                  | 29          |
| Consolidated Statements of Stockholders' Equity for the years ended December 31, 2001, 2000 and 1999 | 30          |
| Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999           | 31          |
| Notes to Consolidated Financial Statements   | 32          |
| Supplementary Data   | 45          |
| Financial Statement Schedule:  |             |
| Schedule for the years ended December 31, 2001, 2000 and 1999  |             |
| II — Valuation and Qualifying Accounts and Reserves  | 46          |

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 ACCOUNTANTS**

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Universal Electronics Inc. and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Orange County, California  
January 22, 2002

**UNIVERSAL ELECTRONICS INC.**  
**CONSOLIDATED BALANCE SHEETS**

|  | December 31, |              |
|--|--------------|--------------|
|  | 2001         | 2000         |
| <b>ASSETS</b>  |              |              |
| Current assets:  |              |              |
| Cash and cash equivalents  | \$34,270,403 | \$20,808,716 |
| Accounts receivable, net   | 28,209,060   | 38,139,721   |
| Inventories  | 16,699,494   | 18,847,336   |
| Prepaid expenses and other current assets  | 829,233      | 1,111,387    |
| Deferred income taxes  | 1,925,024    | 2,665,801    |
| Income tax receivable  | 387,456      | —            |
|  | <hr/>        | <hr/>        |
| Total current assets   | 82,320,670   | 81,572,961   |
| Equipment, furniture and fixtures, net   | 3,827,528    | 3,925,900    |
| Goodwill and other intangible assets, net  | 6,093,516    | 6,898,074    |
| Other assets   | 712,739      | 726,923      |
| Deferred income taxes  | 1,750,312    | 642,200      |
|  | <hr/>        | <hr/>        |
| Total assets   | \$94,704,765 | \$93,766,058 |
|  | <hr/>        | <hr/>        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |              |              |
| Current liabilities:   |              |              |
| Accounts payable   | \$ 9,383,256 | \$12,845,860 |
| Accrued income taxes   | 842,301      | 3,617,249    |
| Accrued compensation   | 860,497      | 3,036,927    |
| Other accrued taxes  | 515,376      | 292,709      |
| Other accrued expenses   | 3,296,990    | 3,456,726    |
|  | <hr/>        | <hr/>        |
| Total current liabilities  | 14,898,420   | 23,249,471   |
| Note payable   | 104,114      | 163,245      |
|  | <hr/>        | <hr/>        |
| Total liabilities  | 15,002,534   | 23,412,716   |
|  | <hr/>        | <hr/>        |
| Commitments and contingencies  |              |              |
| Stockholders' equity:  |              |              |
| Preferred stock, \$.01 par value, 5,000,000 shares authorized; none issued or outstanding  | —            | —            |
| Common stock, \$.01 par value, 50,000,000 shares authorized; 15,729,928 and 15,429,584 shares issued at December 31, 2001 and 2000, respectively | 157,299      | 154,296      |
| Paid-in capital  | 68,657,346   | 64,937,078   |
| Accumulated other comprehensive income (loss)  | (1,804,670)  | (705,957)    |
| Retained earnings  | 23,973,170   | 12,687,392   |
| Deferred stock-based compensation  | (308,093)    | (29,260)     |
|  | <hr/>        | <hr/>        |
|  | 90,675,052   | 77,043,549   |
| Less cost of common stock in treasury, 1,943,304 and 1,647,892 shares at December 31, 2001 and 2000, respectively                                | 10,972,821   | 6,690,207    |
|  | <hr/>        | <hr/>        |
| Total stockholders' equity   | 79,702,231   | 70,353,342   |
|  | <hr/>        | <hr/>        |
| Total liabilities and stockholders' equity   | \$94,704,765 | \$93,766,058 |
|  | <hr/>        | <hr/>        |

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

**UNIVERSAL ELECTRONICS INC.**  
**CONSOLIDATED INCOME STATEMENTS**

|  | Year Ended December 31, |                |                |
|--|-------------------------|----------------|----------------|
|  | 2001                    | 2000           | 1999           |
| Net sales                                    | \$ 119,029,715          | \$ 124,739,877 | \$ 105,091,183 |
| Cost of sales                                | 69,956,570              | 73,167,971     | 61,714,724     |
| Gross profit                                 | 49,073,145              | 51,571,906     | 43,376,459     |
| Selling, general and administrative expenses | 33,064,604              | 33,330,047     | 30,408,321     |
| Operating income                             | 16,008,541              | 18,241,859     | 12,968,138     |
| Interest income, net                         | (987,114)               | (920,520)      | (107,594)      |
| Other income, net                            | (147,309)               | (499,709)      | (43,051)       |
| Income before income taxes                   | 17,142,964              | 19,662,088     | 13,118,783     |
| Provision for income taxes                   | 5,857,186               | 8,061,456      | 5,378,701      |
| Net income                                   | \$ 11,285,778           | \$ 11,600,632  | \$ 7,740,082   |
| Net income per share:                        |                         |                |                |
| Basic  | \$ 0.82                 | \$ 0.84        | \$ 0.58        |
| Diluted                                      | \$ 0.78                 | \$ 0.78        | \$ 0.55        |
| Weighted average common stock outstanding:   |                         |                |                |
| Basic  | 13,844,391              | 13,742,635     | 13,311,594     |
| Diluted                                      | 14,523,140              | 14,941,153     | 14,126,210     |

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

UNIVERSAL ELECTRONICS INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

|   | Common Stock Issued |           | Common Stock in Treasury |                | Paid-in Capital | Accumulated Other           | Retained Earnings/    | Deferred                 | Totals       |
|---|---------------------|-----------|--------------------------|----------------|-----------------|-----------------------------|-----------------------|--------------------------|--------------|
|   | Shares              | Amount    | Shares                   | Amount         |                 | Comprehensive Income (Loss) | (Accumulated Deficit) | Stock-Based Compensation |              |
| Balance at December 31, 1998  | 14,453,214          | \$144,532 | (1,659,210)              | \$ (6,736,156) | \$57,899,173    | \$ (121,753)                | \$ (6,653,322)        | \$ —                     | \$44,532,474 |
| Comprehensive income:   |                     |           |                          |                |                 |                             |                       |                          |              |
| Net income  | —                   | —         | —                        | —              | —               | —                           | 7,740,082             | —                        | 7,740,082    |
| Currency translation adjustment   | —                   | —         | —                        | —              | —               | (115,025)                   | —                     | —                        | (115,025)    |
| Total comprehensive income  |                     |           |                          |                |                 |                             |                       |                          | 7,625,057    |
| Shares issued for employee retirement plan                                | 20,222              | 202       | —                        | —              | 194,719         | —                           | —                     | —                        | 194,921      |
| Stock options exercised   | 835,918             | 8,359     | —                        | —              | 3,027,862       | —                           | —                     | —                        | 3,036,221    |
| Shares issued to Directors  | —                   | —         | 6,826                    | 27,712         | 23,313          | —                           | —                     | —                        | 51,025       |
| Restricted stock grants   | 7,950               | 80        | —                        | —              | 107,633         | —                           | —                     | (107,713)                | —            |
| Amortization of restricted stock grants                                   | —                   | —         | —                        | —              | —               | —                           | —                     | 24,596                   | 24,596       |
| Income tax benefit related to the exercise of non-qualified stock options | —                   | —         | —                        | —              | 3,046,903       | —                           | —                     | —                        | 3,046,903    |
| Balance at December 31, 1999  | 15,317,304          | 153,173   | (1,652,384)              | (6,708,444)    | 64,299,603      | (236,778)                   | 1,086,760             | (83,117)                 | 58,511,197   |
| Comprehensive income:   |                     |           |                          |                |                 |                             |                       |                          |              |
| Net income  | —                   | —         | —                        | —              | —               | —                           | 11,600,632            | —                        | 11,600,632   |
| Currency translation adjustment   | —                   | —         | —                        | —              | —               | (469,179)                   | —                     | —                        | (469,179)    |
| Total comprehensive income  |                     |           |                          |                |                 |                             |                       |                          | 11,131,453   |
| Shares issued for employee retirement plan                                | 14,216              | 142       | —                        | —              | 293,230         | —                           | —                     | —                        | 293,372      |
| Stock options exercised   | 97,864              | 979       | —                        | —              | 591,096         | —                           | —                     | —                        | 592,075      |
| Shares issued to Directors  | —                   | —         | 4,492                    | 18,237         | 76,342          | —                           | —                     | —                        | 94,579       |
| Restricted stock grants   | 200                 | 2         | —                        | —              | 4,398           | —                           | —                     | 53,857                   | 58,257       |
| Income tax benefit related to the exercise of non-qualified stock options | —                   | —         | —                        | —              | 477,206         | —                           | —                     | —                        | 477,206      |
| Adjustment to fair value of warrant issued to a customer                  | —                   | —         | —                        | —              | (804,797)       | —                           | —                     | —                        | (804,797)    |
| Balance at December 31, 2000  | 15,429,584          | 154,296   | (1,647,892)              | (6,690,207)    | 64,937,078      | (705,957)                   | 12,687,392            | (29,260)                 | 70,353,342   |
| Comprehensive income:   |                     |           |                          |                |                 |                             |                       |                          |              |
| Net income  | —                   | —         | —                        | —              | —               | —                           | 11,285,778            | —                        | 11,285,778   |
| Currency translation adjustment   | —                   | —         | —                        | —              | —               | (1,098,713)                 | —                     | —                        | (1,098,713)  |
| Total comprehensive income  |                     |           |                          |                |                 |                             |                       |                          | 10,187,065   |
| Shares issued for employee retirement plan                                | 17,617              | 176       | —                        | —              | 314,558         | —                           | —                     | —                        | 314,734      |
| Purchase of treasury shares   | —                   | —         | (301,600)                | (4,428,771)    | —               | —                           | —                     | —                        | (4,428,771)  |
| Stock options exercised   | 284,497             | 2,845     | —                        | —              | 1,746,707       | —                           | —                     | —                        | 1,749,552    |
| Shares issued to Directors  | —                   | —         | 6,188                    | 27,779         | 82,239          | —                           | —                     | —                        | 110,018      |
| Restricted stock grants   | (1,770)             | (18)      | —                        | 118,378        | 165,034         | —                           | —                     | (278,833)                | 4,561        |
| Income tax benefit related to the exercise of non-qualified stock options | —                   | —         | —                        | —              | 1,411,730       | —                           | —                     | —                        | 1,411,730    |
| Balance at December 31, 2001  | 15,729,928          | \$157,299 | (1,943,304)              | \$(10,972,821) | \$68,657,346    | \$(1,804,670)               | \$23,973,170          | \$(308,093)              | \$79,702,231 |

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

## UNIVERSAL ELECTRONICS INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year Ended December 31, |               |               |
|---|-------------------------|---------------|---------------|
|   | 2001                    | 2000          | 1999          |
| Cash provided by operating activities:  |                         |               |               |
| Net income  | \$11,285,778            | \$ 11,600,632 | \$ 7,740,082  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |               |               |
| Depreciation and amortization   | 4,100,190               | 3,784,586     | 3,616,267     |
| Provision for doubtful accounts   | 337,257                 | (91,493)      | 1,504,275     |
| Deferred income taxes   | (193,786)               | 2,219,896     | 1,206,451     |
| Tax benefit from exercise of stock options  | 1,411,730               | 477,206       | 3,046,903     |
| Other   | 429,313                 | 446,209       | 246,914       |
| Changes in operating assets and liabilities:                                      |                         |               |               |
| Accounts receivable   | 8,373,931               | (10,964,373)  | (5,518,015)   |
| Inventory   | 2,147,843               | (4,993,472)   | 1,340,245     |
| Prepaid expenses and other assets   | (119,347)               | 861,258       | (369,755)     |
| Accounts payable and accrued expenses   | (5,507,720)             | 5,798,588     | 3,808,594     |
| Accrued income and other taxes  | (2,546,057)             | 2,300,898     | 853,731       |
| Net cash provided by operating activities   | 19,719,132              | 11,439,935    | 17,475,692    |
| Cash used for investing activities:   |                         |               |               |
| Acquisition of equipment, furniture and fixtures                                  | (2,565,420)             | (2,751,440)   | (1,441,601)   |
| Payments for businesses acquired  | (143,000)               | (1,493,926)   | (2,050,000)   |
| Acquisition of intangible assets  | (631,841)               | (486,737)     | (321,447)     |
| Net cash used for investing activities  | (3,340,261)             | (4,732,103)   | (3,813,048)   |
| Cash provided by (used for) financing activities:                                 |                         |               |               |
| Short-term bank borrowing   | —                       | —             | 10,810,000    |
| Short-term bank payments  | —                       | —             | (15,596,293)  |
| Payments on note payable  | (50,421)                | (60,910)      | —             |
| Proceeds from stock options exercised   | 1,749,552               | 592,075       | 3,036,221     |
| Treasury stock purchased  | (4,428,771)             | —             | —             |
| Net cash provided by (used for) financing activities                              | (2,729,640)             | 531,165       | (1,750,072)   |
| Effect of exchange rate changes on cash   | (187,544)               | 283,500       | (115,025)     |
| Net increase in cash and cash equivalents   | 13,461,687              | 7,522,497     | 11,797,547    |
| Cash and cash equivalents at beginning of year                                    | 20,808,716              | 13,286,219    | 1,488,672     |
| Cash and cash equivalents at end of year  | \$34,270,403            | \$ 20,808,716 | \$ 13,286,219 |

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

UNIVERSAL ELECTRONICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1 — Description of Business**

Universal develops and markets easy-to-use, pre-programmed universal wireless control devices and technologies principally for home video and audio entertainment equipment. The Company sells its wireless control products and proprietary technologies to private label customers, original equipment manufacturers, retail businesses, and companies involved in the subscription broadcasting industry. The Company also sells its wireless control products through its wholly owned subsidiaries and distributors internationally under the *One for All*® brand name.

**Note 2 — Summary of Significant Accounting Policies**

*Principles of Consolidation*

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

*Estimates and Assumptions*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions 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, the Company evaluates its 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. Actual results could differ from those estimates.

*Revenue Recognition*

The Company recognizes revenue on the sale of products when title and risk of loss have passed to the customer, there is pervasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is fixed or determinable, collectibility is reasonably assured and customer acceptance criteria have been successfully demonstrated. Product revenue is recognized upon shipment when the customer acceptance can be demonstrated prior to shipment. For sales of new products or when the customer acceptance criteria cannot be demonstrated prior to shipment, revenue and the related cost of goods sold are deferred until customer acceptance. For the majority of the Company's sales, recognition occurs when products are shipped. The Company records a provision for estimated sales returns and allowances on product sales in the same period as the related revenues are recorded. These estimates are based on historical sales returns, analysis of credit memo data and other known factors.

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

## [Table of Contents](#)

### *Foreign Currency Translation*

The assets and liabilities of foreign subsidiaries are translated to U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates during the period. Resulting translation adjustments are recorded in a separate component of stockholders' equity, "Accumulated other comprehensive income."

### *Cash and Cash Equivalents*

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

### *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.

### *Equipment, Furniture and Fixtures*

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

### *Long-Lived Assets, Goodwill and Other Intangible Assets*

The Company assesses the impairment of long-lived assets, goodwill and other intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which could trigger an impairment review include the following (1) significant underperformance relative to expected historical or projected future operating results; (2) significant changes in the manner of our use of the acquired 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) our market capitalization relative to net book value. When the Company determines that the carrying value may not be recoverable based upon the existence of one or more of the above indicators of impairment, and based on the carrying value of the asset being less than the undiscounted cash flows, the Company measures an impairment based on 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 recoverability, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets.

## [Table of Contents](#)

### *Income Taxes*

Income tax expense includes U.S. and international income taxes. Deferred income taxes are provided utilizing an asset and liability method that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in different periods for financial statement purposes versus tax return purposes. The carrying value of the Company's net deferred tax assets assumes that the Company will be able to generate sufficient future taxable income in certain tax jurisdictions, based on estimates and assumptions. The Company evaluates the realizability of the deferred tax assets quarterly and assesses the need for valuation allowances quarterly.

### *Research and Development*

Research and development expenditures are expensed as incurred. Research and development expense was \$4,200,000, \$3,284,000, and \$2,863,000 for the years ended December 31, 2001, 2000, and 1999, respectively.

### *Advertising*

Advertising costs are expensed as incurred. Advertising expense was \$1,470,141, \$1,282,519 and \$1,263,344 for the years ended December 31, 2001, 2000, and 1999, respectively.

### *Shipping and Handling Costs*

The Company records shipping and handling costs in selling, general and administrative expenses. Shipping and handling costs amounted to \$2,205,033, \$2,946,505 and \$1,525,817 for the years ended December 31, 2001, 2000 and 1999, respectively.

### *Accounting Policy for Derivatives*

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

The Company's currency exposures are primarily concentrated in the Euro and British Pound Sterling. The Company had no foreign exchange contracts outstanding at December 31, 2001. The Company does not enter into financial instruments for speculation or trading purposes. These financial exposures are monitored and managed by the Company as an integral part of the Company's overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effect on the Company's results.

## Table of Contents

### *Reclassifications*

Certain prior year amounts have been reclassified to conform with the presentation utilized in the year ended December 31, 2001.

### *New Accounting Pronouncements*

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

In accordance with SFAS No. 142, effective January 1, 2002, the Company will cease amortization of approximately \$3.0 million of net unamortized goodwill. The Company recorded approximately \$565,000 of amortization during 2001 and would have recorded approximately \$565,000 of amortization during 2002. In lieu of amortization, the Company is required to perform an initial impairment review of its goodwill in 2002 and an annual impairment review thereafter. The Company expects to complete its initial review during the second quarter of 2002. Currently, the Company does not expect to record an impairment charge upon completion of the initial impairment review.

In August 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” This statement supersedes SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of” and applies to all long-lived assets, including discontinued operations. This statement also amends Accounting Principles Board Opinion No. 30, “Reporting Results of Operations — Reporting the Effects of Disposal of a Segment of a Business.” SFAS No. 144 develops one accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale as well as addresses the principle implementation issues. The Company is required to adopt the provisions of SFAS No. 144 no later than January 1, 2002. The Company does not expect the adoption of SFAS No. 144 to have a material impact on the Company’s results of operations or financial position.

### **Note 3 — Goodwill and Other Intangible Assets**

#### *Goodwill and Other Intangible Assets*

Goodwill and other intangible assets are stated on the basis of cost and are amortized on a straight-line basis over the estimated future periods to be benefited. Other intangible assets consist primarily of patents and trademarks. The amortization periods range from five to ten years. At December 31, 2001, 2000, and 1999, accumulated amortization was \$4,804,335, \$3,354,613 and \$2,098,780, respectively. Amortization expense was \$ 1,436,399, \$1,262,141, and \$1,339,799 for the years ended December 31, 2001, 2000, and 1999, respectively.

#### *Acquisitions*

On August 25, 2000, the Company completed its acquisition of a remote control distributor in France for approximately \$1.8 million, of which \$1,494,000 was paid during 2000 and \$143,000 was paid during 2001. The remaining amount will be paid in installments during 2002.

Effective July 1, 1999, the Company completed its acquisition of a remote control distributor in Spain for \$750,000 in cash.

During the first quarter of 1998, the Company acquired a remote control distributor in the United Kingdom for \$3.0 million, of which \$1.7 million was paid in 1998 and the remaining \$1.3 million was paid in 1999.

The excess of the aggregate purchase prices for these acquisitions over the fair market value of net assets acquired is recorded as goodwill.

**Note 4 — Accounts Receivable**

Accounts receivable consist of the following:

|                                 | December 31,        |                     |
|---------------------------------|---------------------|---------------------|
|                                 | 2001                | 2000                |
| Accounts receivable, gross      | \$30,010,312        | \$39,819,821        |
| Allowance for doubtful accounts | (1,801,252)         | (1,680,100)         |
|                                 | <u>\$28,209,060</u> | <u>\$38,139,721</u> |

**Note 5 — Inventories**

Inventories consist of the following:

|                | December 31,        |                     |
|----------------|---------------------|---------------------|
|                | 2001                | 2000                |
| Components     | \$ 8,525,412        | \$10,079,116        |
| Finished goods | 8,174,082           | 8,768,220           |
|                | <u>\$16,699,494</u> | <u>\$18,847,336</u> |

The Company carries inventory in amounts necessary to satisfy certain of its customers' inventory requirements on a timely basis. New product innovations and technological advances may shorten a given product's life cycle. Management continually monitors the inventory status to control inventory levels and dispose of any excess or obsolete inventories on hand.

**Note 6 — Equipment, Furniture and Fixtures**

Equipment, furniture and fixtures consist of the following:

|                          | December 31,        |                     |
|--------------------------|---------------------|---------------------|
|                          | 2001                | 2000                |
| Tooling                  | \$ 4,914,626        | \$ 5,781,477        |
| Equipment                | 5,174,601           | 4,703,982           |
| Furniture and fixtures   | 1,038,223           | 926,193             |
| Leasehold improvements   | 1,145,016           | 1,115,941           |
|                          | <u>12,272,466</u>   | <u>12,527,593</u>   |
| Accumulated depreciation | (8,444,938)         | (8,601,693)         |
|                          | <u>\$ 3,827,528</u> | <u>\$ 3,925,900</u> |

Depreciation expense was \$2,663,791, \$2,522,445, and \$2,276,468 for the years ended December 31, 2001, 2000, and 1999, respectively.

**Note 7 — Revolving Credit Line**

On October 23, 1998, the Company entered into a \$15 million revolving credit agreement with Bank of America National Trust and Savings Association (“B of A”), which was amended on September 19, 2000 (the “Agreement”). Under the Agreement with B of A, the Company can choose from several interest rate options at its discretion. The interest rate in effect as of December 31, 2001 using the Fixed Rate option as defined in the Agreement, which is intended to approximate B of A’s cost of funds, plus an applicable margin, was 3.12%. The applicable margin varies with a range from 1.25% to 2.00% per annum depending on the Company’s net income before interest, taxes, depreciation and amortization. At December 31, 2001, the applicable margin was 1.25 percent. The revolving credit facility, originally expiring on October 23, 2001 was extended to March 23, 2002. The agreement is collateralized by the Company’s cash and cash equivalents, accounts receivable, inventory, equipment, and general intangibles of the Company. The Company pays a commitment fee of a maximum rate of 3/16 of 1% per year on the unused portion of the credit line. Under the terms of this Agreement, the Company’s ability to pay cash dividends on its common stock is restricted and the Company is subject to certain financial covenants and other restrictions. However, the Company has authority under this credit facility to acquire up to 1,000,000 shares of its common stock in market purchases and, since the date of this Agreement, the Company has acquired approximately 410,600 shares of stock, at a cost of approximately \$4,993,270, which it holds as treasury shares and are available for reissue by the Company. Amounts available for borrowing under this credit facility are reduced by the outstanding balance of the Company’s import letters of credit. The Company intends to enter into another similar revolving credit agreement with the Bank on terms and conditions that are substantially similar to those set forth above and is currently in the process of finalizing an agreement.

The Company had no amounts outstanding under the revolving credit facility and no import letters of credit outstanding at December 31, 2001, 2000 and 1999. Total interest paid was \$0, \$0, and \$28,422 for the years ended December 31, 2001, 2000 and 1999, respectively.

**Note 8 — Financial Instruments**

The Company’s financial instruments consist primarily of investments in cash and cash equivalents, accounts receivable and accounts payable, as well as obligations under the credit facility described above. The carrying values of these instruments approximate fair value because of their short maturity.

The Company enters into foreign currency forward exchange contracts with contract terms normally lasting six months or less, to protect against the adverse effects that exchange-rate fluctuations may have on foreign-currency-denominated trade receivables. These derivatives do not qualify for hedge accounting, in accordance with SFAS 133, because they relate to existing assets denominated in a foreign currency. Derivative instruments are carried on the consolidated balance sheets at fair value and the related gains and losses on both the derivatives and the foreign-currency-denominated trade receivables are recorded as transaction adjustments in current earnings. At December 31, 2001, the Company had no outstanding forward exchange contracts.

**Note 9 — Stockholders’ Equity**

*Fair Price Provisions and Other Anti-Takeover Measures*

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

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

*Treasury Stock*

During 2001, 301,600 shares of common stock were purchased by the Company on the open market at a cost of \$4,428,770. During 2000 and 1999, no company stock was purchased by the Company. These shares are recorded as shares held in treasury at cost. The shares will generally be held by the Company for future use as management and the Board of Directors shall deem appropriate. In addition, some of these shares will be used by the Company to compensate the outside directors of the Company. During 2001, 2000, and 1999, 6,188, 4,492, and 6,826, shares, respectively, were issued to the outside directors.

## Table of Contents

### *Warrant Issued to Customer*

On November 9, 1998, the Company entered into an exclusive supply agreement with a customer. As a result of this agreement, the Company issued a warrant entitling the customer to purchase up to 600,000 shares of the Company's common stock at \$6.3125 per share. In 1999, based on the expected number of shares to be issued, the fair value of this warrant of \$1,006,000 was recorded as additional paid in capital of the Company with a corresponding increase in other assets. The fair value of the warrant was determined using the Black-Scholes Model. The following assumptions were used for the warrant: risk-free interest rate of approximately 4.84%; expected volatility of approximately 48.11%; and expected life of five years. During 2000, the value of the warrant was adjusted by approximately \$805,000. Subject to achieving the minimum purchase requirements of the warrant, the warrant was scheduled to vest 50% on January 1, 2003 and 50% on January 1, 2004. In 2001, 2000 and 1999, the customer failed to purchase the minimum requirement each year and thus, the warrant expired and the customer forfeited its right to acquire up to 600,000 shares of Company common stock.

### *Restricted Stock Awards*

On July 11, 2001, as compensation for the outside directors for the three year period commencing July 1, 2001, the Company granted each director restricted shares with a fair market value equivalent to approximately \$84,000. These restricted shares have been recorded in a separate component of stockholders' equity and are being amortized over their three-year vesting period. Each calendar quarter, 1/12 of the total stock award will vest and the shares will be distributed provided the director has served the entire calendar quarter term. Amortization expense amounted to \$56,017 in 2001.

During the year ended December 31, 1999, a total of 7,950 restricted shares of the Company's common stock were reserved for issuance to certain employees. The restricted shares vest over a two-year period and had a market value of \$107,713 at the award date. These awards have been recorded in a separate component of stockholders' equity. The carrying value of the restricted stock grants is being amortized over the two-year vesting period. Amortization expense amounted to \$29,260, \$53,857 and \$24,596 in 2001, 2000 and 1999, respectively.

## **Note 10 — Stock Options**

### *1993 Stock Incentive Plan*

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

### *1995 Stock Incentive Plan*

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

### *1996 Stock Incentive Plan*

On December 1, 1996, the 1996 Stock Incentive Plan ("1996 Plan") was approved. Under the 1996 Plan, 800,000 shares of common stock are available for distribution to the Company's key officers and employees. The 1996 Plan provides for the issuance of stock options, stock appreciation rights, performance stock units, or any combination

## Table of Contents

thereof through November 30, 2007, unless otherwise terminated by the resolution of the Company's Board of Directors. The option price for the stock options will be equal to the fair market value at the date of grant. The Compensation Committee shall determine when each option is to expire, but no option shall be exercisable more than ten years after the date the option is granted. No stock appreciation rights or performance stock units have been awarded under this 1996 Plan.

### *1998 Stock Incentive Plan*

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

### *1999 Stock Incentive Plan*

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

### *1999A Stock Incentive Plan*

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

The Company applies the provisions of APB 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 generally are granted at fair market value on the date of the grant. In October 1995, Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"), was issued. The Company adopted the disclosure requirements of this Statement in 1996 and accordingly, had compensation expense been determined consistent with SFAS No. 123, the Company's 2001 net income and basic and diluted earnings per share would have been \$8,915,566, \$0.64 and \$0.61, respectively. The Company's 2000 net income and basic and diluted earnings per share would have been \$9,818,172, \$0.71 and \$0.66, respectively. The Company's 1999 net income and basic and diluted earnings per share would have been \$6,627,088, \$0.50 and \$0.47, respectively.

## Table of Contents

The fair value of options at date of grant was estimated using the Black-Scholes model. The following assumptions were used for the grants in 2001, 2000, and 1999, respectively: risk-free interest rate of approximately 4.85%, 6.18%, and 5.56%; expected volatility of approximately 63.06%, 62.61%, and 51.75%; expected life of five years for 2001, 2000, and 1999; and the common stock will pay no dividends. The per share weighted average grant date fair values of the options granted in 2001, 2000, and 1999 was \$10.43, \$11.35, and \$9.95.

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

|                                  | 2001         |                                 | 2000         |                                 | 1999         |                                 |
|----------------------------------|--------------|---------------------------------|--------------|---------------------------------|--------------|---------------------------------|
|                                  | Shares (000) | Weighted-Average Exercise Price | Shares (000) | Weighted-Average Exercise Price | Shares (000) | Weighted-Average Exercise Price |
| Outstanding at beginning of year | 2,455        | \$10.29                         | 2,142        | \$ 7.89                         | 1,688        | \$4.29                          |
| Granted                          | 153          | 18.08                           | 484          | 19.93                           | 1,352        | 9.58                            |
| Exercised                        | (284)        | 6.15                            | (98)         | 6.05                            | (836)        | 3.63                            |
| Expired and/or forfeited         | (64)         | 13.79                           | (73)         | 9.41                            | (62)         | 4.31                            |
| Outstanding at end of year       | 2,260        | \$11.28                         | 2,455        | \$10.29                         | 2,142        | \$7.89                          |
| Options exercisable at year-end  | 1,076        |                                 | 749          |                                 | 181          |                                 |

Significant option groups outstanding at December 31, 2001 and related weighted average price and life information follows:

| Range of Exercise Prices | Options Outstanding            |   |                                 | Options Exercisable            |                                 |
|--------------------------|--------------------------------|---|---------------------------------|--------------------------------|---------------------------------|
|                          | Number Outstanding At 12/31/01 | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable At 12/31/01 | Weighted-Average Exercise Price |
| \$2.16 to \$5.94         | 496,150                        | 6.27  | \$ 4.99                         | 328,150                        | \$ 4.92                         |
| 6.19 to 10.53            | 443,416                        | 7.05  | 7.44                            | 270,583                        | 7.43                            |
| 11.02 to 16.90           | 731,300                        | 7.85  | 11.13                           | 355,467                        | 11.03                           |
| 18.38 to 22.78           | 589,125                        | 8.73  | 19.66                           | 121,958                        | 19.89                           |
| \$2.16 to \$22.78        | 2,259,991                      | 7.58  | \$11.28                         | 1,076,158                      | \$ 9.26                         |

### Note 11 — Significant Customers and Suppliers

During 2001, there were no customers with sales exceeding 10% of total Company sales. For each of the two years ended December 31, 2000 and 1999, the Company had annual sales to two customers that individually exceeded 10% of total Company sales. The sales to these customers amounted to \$15.9 million and \$13.6 million in 2000 and \$12.2 million and \$10.8 million in 1999. Trade receivables with the previously mentioned customers amounted to \$7.0 million and \$2.1 million at December 31, 2000 and 1999, respectively.

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

The Company utilizes third-party manufacturers in the Far East, Mexico and the United States to produce its wireless control products. The number of third party manufacturers or suppliers that provided the Company in excess of 10% of the Company's wireless control products and/or components were three, three, and two for 2001, 2000, and 1999, respectively. These manufacturers collectively represented 43%, 45% and 30% of the Company's manufacturing services and components in 2001, 2000 and 1999, respectively. Additionally, the Company currently purchases a significant portion of its integrated circuit chips from two vendors.

**Note 12 — Leases**

The Company leases office and warehouse space and certain office equipment under operating leases. Rental expense under operating leases was \$1,010,896, \$900,849, and \$953,475 for the years ended December 31, 2001, 2000, and 1999, respectively.

The following summarizes future minimum non-cancelable operating lease payments at December 31, 2001:

| Year ending December 31: | Amount      |
|--------------------------|-------------|
| 2002                     | \$ 661,390  |
| 2003                     | 551,872     |
| 2004                     | 110,263     |
| 2005                     | 61,862      |
| 2006 and beyond          | 144,371     |
| Total lease commitments  | \$1,529,758 |

**Note 13 — Employee Benefit Plans**

The Company maintains a retirement and profit sharing plan under Section 401(k) of the Internal Revenue Code for all of its domestic employees that meet certain qualifications. Participants in the plan may elect to contribute from 1% to 15% of their annual salary to the plan. The Company may, at its discretion, make contributions to the plan. The Company's match was increased from 25% to 50% of participants' contributions effective April 22, 1999 and the expense recorded for the years ended December 31, 2001, 2000 and 1999 amounted to \$283,352, \$292,388 and \$200,236, respectively. The Company's match in 2001, 2000, and 1999 was in the form of newly issued shares of common stock of the Company.

**Note 14 — Income Taxes**

In 2001, 2000, and 1999, pretax income was attributed to the following jurisdictions:

|                     | Year Ended December 31, |              |              |
|---------------------|-------------------------|--------------|--------------|
|                     | 2001                    | 2000         | 1999         |
| Domestic operations | \$19,164,817            | \$19,393,318 | \$13,032,767 |
| Foreign operations  | (2,021,853)             | 268,770      | 86,016       |
| Total               | \$17,142,964            | \$19,662,088 | \$13,118,783 |

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

|                       | Year Ended December 31, |             |             |
|-----------------------|-------------------------|-------------|-------------|
|                       | 2001                    | 2000        | 1999        |
| Current tax expense:  |                         |             |             |
| U.S. federal          | \$5,402,319             | \$4,060,306 | \$3,458,002 |
| State and local       | 582,700                 | 1,687,181   | 685,003     |
| Foreign               | 65,953                  | 94,073      | 29,245      |
| Total current         | 6,050,972               | 5,841,560   | 4,172,250   |
| Deferred tax expense: |                         |             |             |
| U.S. federal          | 322,750                 | 2,205,254   | 1,004,848   |
| State and local       | 95,800                  | 14,642      | 201,603     |
| Foreign               | (612,336)               | —           | —           |
| Total deferred        | (193,786)               | 2,219,896   | 1,206,451   |
| Total provision       | \$5,857,186             | \$8,061,456 | \$5,378,701 |

## [Table of Contents](#)

The Company made income tax payments of \$7,801,643, \$2,578,766 and \$726,857 in 2001, 2000 and 1999, respectively.

Net deferred tax assets (liabilities) comprised the following at December 31:

|                                 | 2001        | 2000        | 1999        |
|---------------------------------|-------------|-------------|-------------|
| Inventory reserves              | \$ 468,496  | \$1,043,041 | \$ 660,310  |
| Allowance for doubtful accounts | 577,218     | 609,913     | 738,390     |
| Capitalized inventory costs     | 259,161     | 310,507     | 218,855     |
| NOL and credit carry forwards   | 612,336     | —           | 2,983,469   |
| Amortization of intangibles     | 649,923     | 537,593     | 421,701     |
| State taxes                     | 115,403     | 321,133     | 78,106      |
| Depreciation                    | 105,612     | —           | —           |
| Other                           | 887,187     | 524,352     | 612,462     |
| Gross deferred tax assets       | 3,675,336   | 3,346,539   | 5,713,293   |
| Depreciation                    | —           | (38,538)    | (185,396)   |
| Gross deferred tax liabilities  | —           | (38,538)    | (185,396)   |
|                                 | \$3,675,336 | \$3,308,001 | \$5,527,897 |

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, |             |             |
|--|-------------------------|-------------|-------------|
|  | 2001                    | 2000        | 1999        |
| Tax provision at statutory U.S. rate                 |                         |             |             |
| Increase (decrease) in tax provision resulting from: |                         |             |             |
| State and local taxes, net                           | \$6,000,037             | \$6,882,000 | \$4,460,386 |
| Foreign tax rate differential                        | 480,505                 | 1,150,860   | 782,280     |
| Non deductible items                                 | 76,669                  | —           | —           |
| Federal research and development credits             | 19,316                  | 22,777      | 28,763      |
| Other  | (416,695)               | —           | —           |
|  | (302,646)               | 5,819       | 107,272     |
| Tax provision as above                               | \$5,857,186             | \$8,061,456 | \$5,378,701 |

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

**Note 15 — Earnings Per Share**

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and dilutive potential common shares which includes the dilutive effect of stock options and restricted stock grants. Dilutive potential common shares for all periods presented are computed utilizing the treasury stock method. In the computation of diluted earnings per common share for the year ended December 31, 2001, approximately 589,000 stock options, with exercise prices greater than the average market price of the underlying common stock, were excluded because their inclusion would have been antidilutive.

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

|   | Year Ended        |                   |                   |
|---|-------------------|-------------------|-------------------|
|   | December 31, 2001 | December 31, 2000 | December 31, 1999 |
| <b>BASIC</b>  |                   |                   |                   |
| Net Income  | \$11,286          | \$11,601          | \$ 7,740          |
| Weighted-average common shares outstanding                    | 13,844            | 13,743            | 13,312            |
| Basic earnings per share                                      | \$ 0.82           | \$ 0.84           | \$ 0.58           |
| <b>DILUTED</b>  |                   |                   |                   |
| Net Income  | \$11,286          | \$11,601          | \$ 7,740          |
| Weighted-average common shares outstanding for basic          | 13,844            | 13,743            | 13,312            |
| Dilutive effect of stock options and restricted stock         | 679               | 1,198             | 814               |
| Weighted-average common shares outstanding on a diluted basis | 14,523            | 14,941            | 14,126            |
| Diluted earnings per share                                    | \$ 0.78           | \$ 0.78           | \$ 0.55           |

**Note 16 — Business Segments and Foreign Operations**

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

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

|                            | 2001          | 2000          | 1999          |
|----------------------------|---------------|---------------|---------------|
| <b>Net Sales</b>           |               |               |               |
| United States              | \$ 81,013,675 | \$ 82,292,109 | \$ 70,067,412 |
| Netherlands                | 12,703,846    | 19,013,186    | 10,118,979    |
| United Kingdom             | 8,723,896     | 7,511,173     | 8,889,076     |
| France                     | 5,232,039     | 3,614,776     | 3,908,861     |
| Germany                    | 2,686,711     | 5,227,083     | 6,467,420     |
| All Other                  | 8,669,548     | 7,081,550     | 5,639,435     |
| Total Net Sales            | \$119,029,715 | \$124,739,877 | \$105,091,183 |
| <b>Identifiable Assets</b> |               |               |               |
| United States              | \$ 6,509,690  | \$ 6,590,934  | \$ 7,617,945  |
| All Other Countries        | 4,124,093     | 4,959,963     | 4,005,430     |
| Total Identifiable Assets  | \$ 10,633,783 | \$ 11,550,897 | \$ 11,623,375 |

## [Table of Contents](#)

Specific identification was the basis used for attributing revenues from external customers to individual countries. Foreign currency exchange gains of \$113,946, \$512,623, and \$30,344 were included in the determination of net income for the years ended December 31, 2001, 2000, and 1999, respectively.

### **Note 17 — Related Party Transactions**

In August 2001, the Company entered into a 30-month consulting agreement with one of its directors, under which the director will receive \$600,000 for services rendered. This agreement expires in February 2004.

### **Note 18 — Commitments and Contingent Liabilities**

The Company is a party to lawsuits and claims arising in the normal course of its business. In the opinion of management, the Company's liability or recovery, if any, under pending litigation and claims would not materially adversely affect its results of operations, cash flows, or financial condition.

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

Summarized quarterly financial data for the years ended December 31, 2001 and 2000.

|   | 2001         |              |                  |                 |
|---|--------------|--------------|------------------|-----------------|
|   | March<br>31, | June<br>30,  | September<br>30, | December<br>31, |
| Net sales                                     | \$31,022,723 | \$29,107,281 | \$31,030,337     | \$27,869,374    |
| Gross profit                                  | 13,309,998   | 12,133,186   | 12,656,019       | 10,973,942      |
| Operating income                              | 4,003,579    | 3,694,786    | 4,188,769        | 4,121,407       |
| Net income                                    | \$ 2,541,169 | \$ 2,316,673 | \$ 2,798,142     | \$ 3,629,794    |
| Net income per share:                         |              |              |                  |                 |
| Basic   | \$ 0.18      | \$ 0.17      | \$ 0.20          | \$ 0.26         |
| Diluted                                       | \$ 0.17      | \$ 0.16      | \$ 0.19          | \$ 0.25         |
| Weighted average common<br>stock outstanding: |              |              |                  |                 |
| Basic   | 13,818,075   | 13,926,002   | 13,867,913       | 13,766,966      |
| Diluted                                       | 14,587,560   | 14,704,618   | 14,435,241       | 14,366,529      |
|   |              |              |                  |                 |
|   | 2000         |              |                  |                 |
|   | March<br>31, | June<br>30,  | September<br>30, | December<br>31, |
| Net sales                                     | \$22,664,092 | \$28,291,338 | \$34,979,256     | \$38,805,191    |
| Gross profit                                  | 9,678,066    | 11,454,242   | 14,277,627       | 16,161,971      |
| Operating income                              | 1,536,816    | 3,290,726    | 5,638,890        | 7,775,427       |
| Net income                                    | \$ 1,034,435 | \$ 2,144,411 | \$ 3,638,428     | \$ 4,783,358    |
| Net income per share:                         |              |              |                  |                 |
| Basic   | \$ 0.08      | \$ 0.16      | \$ 0.26          | \$ 0.35         |
| Diluted                                       | \$ 0.07      | \$ 0.14      | \$ 0.24          | \$ 0.33         |
| Weighted average common<br>stock outstanding: |              |              |                  |                 |
| Basic   | 13,695,000   | 13,743,000   | 13,759,000       | 13,776,000      |
| Diluted                                       | 15,063,000   | 15,066,000   | 15,112,000       | 14,526,000      |

**UNIVERSAL ELECTRONICS INC.**  
**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**  
**FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999**

| Description                    | Balance at<br>Beginning of<br>Period | Additions<br>Charged to<br>Costs and<br>Expenses | Write-offs<br>And<br>Deductions | Balance at<br>End of<br>Period |
|--------------------------------|--------------------------------------|--|---------------------------------|--------------------------------|
| Valuation account for accounts |                                      |  |                                 |                                |
| receivable:                    |                                      |  |                                 |                                |
| Year Ended December 31, 2001   | \$1,680,100                          | \$ 337,257                                       | \$ 216,105                      | \$1,801,252                    |
| Year Ended December 31, 2000   | \$1,879,931                          | \$ (91,493)                                      | \$ 108,338                      | \$1,680,100                    |
| Year Ended December 31, 1999   | \$1,611,468                          | \$1,504,275                                      | \$1,235,812                     | \$1,879,931                    |

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

None.

**PART III****ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information required by Item 401 of Regulation S-K with respect to the directors of the Company will be contained in and is hereby incorporated by reference to the Company's definitive Proxy Statement for its 2002 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934. Information regarding executive officers of the Company is set forth in Part I of this Form 10-K.

**ITEM 11. EXECUTIVE COMPENSATION**

Information required by Item 402 of Regulation S-K will be contained in and is hereby incorporated by reference to the Company's definitive Proxy Statement for its 2002 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

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

Information required by Item 403 of Regulation S-K will be contained in and is hereby incorporated by reference to the Company's definitive Proxy Statement for its 2002 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

The following summarizes the Company's equity compensation plan at December 31, 2001.

**Equity Compensation Plan Information**

| Plan Category  | (a)<br>Number of Securities to be issued upon exercise of outstanding options, warrants and rights | (b)<br>Weighted-average exercise price of outstanding options, warrants and rights | (c)<br>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     | 1,335,441  | \$ 9.56  | 108,931   |
| Equity compensation plans not approved by security holders | 924,550  | 13.77  | 34,000  |
| <b>Total</b>   | <b>2,259,991</b>   | <b>\$ 11.28</b>  | <b>142,931</b>  |

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

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Information required by Item 404 of Regulation S-K will be contained in and is hereby incorporated by reference to the Company's definitive Proxy Statement for its 2002 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

**PART IV**

**ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K**

- (a)(1) **List of Financial Statements**  
See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-Index to Consolidated Financial Statements" for a list of the consolidated financial statements included herein.
- (a)(2) **List of Financial Statement Schedules**  
See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-Index to Consolidated Financial Statements" for a list of the consolidated financial statement schedules included herein.
- (a)(3) **List of Exhibits required to be filed by Item 601(a) of the Regulation S-K are included as Exhibits to this Report:**  
See EXHIBIT INDEX at page 50 to Form 10-K.
- (b) No reports on Form 8-K were filed by the Company during the quarter ended December 31, 2001

**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 27th day of March, 2002.

**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 Robert P. Lilleness 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 27th day of March, 2002, by the following persons on behalf of the registrant and in the capacities indicated.

| <b>NAME &amp; TITLE</b>   | <b>SIGNATURE</b>        |
|---|-------------------------|
| Paul D. Arling<br><i>Chairman and Chief Executive Officer</i><br>(Principal Executive Officer)  | /s/ Paul D. Arling      |
| Robert P. Lilleness<br><i>President and Chief Operating Officer</i>   | /s/ Robert P. Lilleness |
| Mark Z. Belzowski<br><i>Vice President, Chief Financial Officer<br/>and Treasurer</i><br>(Principal Financial and Accounting Officer) | /s/ Mark Z. Belzowski   |
| Camille Jayne<br><i>Director</i>  | /s/ Camille Jayne       |
| David Beddow<br><i>Director</i>   | /s/ David Beddow        |
| Bruce A. Henderson<br><i>Director</i>   | /s/ Bruce A. Henderson  |
| William C. Mulligan<br><i>Director</i>  | /s/ William C. Mulligan |
| J. C. Sparkman<br><i>Director</i>   | /s/ J.C. Sparkman       |

**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Document Description</b>   |
|---------------------------|---|
| 2.1                       | Asset Purchase Agreement dated September 1, 1998 by and among Universal Electronics Inc., H&S Management Corp., J.C. Sparkman and Steven Helbig (Incorporated by reference to Exhibit 2.1 to The Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))  |
| 2.2                       | Contract for Sale of Participations of Unimand Espana, S.L. dated June 30, 1999 by and among Universal Electronics, BV and Diffusion Artistique et Musicale D.A.M. S.A. and Mr. Francisco Muro (Incorporated by reference to Exhibit 2.2 to The Company's Annual Report on Form 10-K for the year ended December 31, 1999 filed on March 30, 2000 (File No. 0-21044))                                     |
| 3.1                       | Restated Certificate of Incorporation of Universal Electronics Inc., as amended (Incorporated by reference to Exhibit 3.1 to the Company's Form S-1 Registration filed on or about December 24, 1992 (File No. 33-56358))   |
| 3.2                       | Amended and Restated By-laws of Universal Electronics Inc. (Incorporated by reference to Exhibit 3.2 to the Company's Form S-1 Registration filed on or about December 24, 1992 (File No. 33-56358))  |
| 3.3                       | Certificate of Amendment to Restated Certificate of Incorporation of Universal Electronics Inc. (Incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 filed on April 1, 1996 (File No. 0-21044))   |
| 4.1                       | Stockholder Protection Rights Agreement, dated as of May 19, 1995, between Universal Electronics Inc. and Society National Bank, as Rights Agent (incorporated by reference to Exhibit 1 to the Company's Form 8-A Registration filed on or about June 5, 1995)   |
| 4.2                       | Form of Certificate of Designation and Terms of Participating Preferred Stock of Universal Electronics Inc., included as Exhibit A to the Stockholder Protection Rights Agreement, dated as of May 19, 1995, between Universal Electronics Inc. and Society National Bank, as Rights Agent (incorporated by reference to Exhibit 2 to the Company's Form 8-A Registration filed on or about June 5, 1995) |
| 4.3                       | Form of Rights Certificate and of Election to Exercise, included as Exhibit B to the Stockholder Protection Rights Agreement, dated as of May 19, 1995, between Universal Electronics Inc. and Society National Bank, as Rights Agent (incorporated by reference to Exhibit 3 to the Company's Form 8-A Registration filed on or about June 5, 1995)  |
| *10.1                     | Form of Universal Electronics Inc. 1993 Stock Incentive Plan (Incorporated by reference to Exhibit 10.13 to Amendment No. 1 to the Company's Form S-1 Registration filed on or about January 21, 1993 (File No. 33-56358))  |
| 10.2                      | Form of Secured Promissory Note by and between Universal Electronics Inc. and certain employees used in connection with loans made to the employee to enable them to make open market purchases of shares of Universal Electronics Inc. Common Stock (Incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 (File No. 0-21044))    |
| 10.3                      | Form of Stock Pledge Agreement by and between Universal Electronics Inc. and certain employees used in connection with loans made to the employees to enable them to make open market purchases of shares of Universal Electronics Inc. Common Stock (Incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 (File No. 0-21044))    |
| 10.4                      | Loan and Security Agreement dated November 21, 1995 by and between Universal Electronics Inc. and The Provident Bank (Incorporated by reference to Exhibit 10.20 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))  |
| 10.5                      | Copy of Promissory Note dated November 21, 1995 by and between Universal Electronics Inc. and The Provident Bank (Incorporated by reference to Exhibit 10.21 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))  |

## Table of Contents

| <b>Exhibit<br/>Number</b> | <b>Document Description</b>   |
|---------------------------|---|
| 10.6                      | Commercial Letters of Credit Master Agreement dated November 21, 1995 by and between Universal Electronics Inc. and The Provident Bank (Incorporated by reference to Exhibit 10.22 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))  |
| 10.7                      | Intercreditor Agreement dated November 21, 1995 by and between The Provident Bank and Society National Bank and acknowledged and agreed to by Universal Electronics Inc. (Incorporated by reference to Exhibit 10.23 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))  |
| 10.8                      | Lockbox Service Contract dated November 10, 1995 by and between Universal Electronics Inc. and The Provident Bank (Incorporated by reference to Exhibit 10.24 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))   |
| *10.9                     | 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))   |
| *10.10                    | 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. 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))                               |
| *10.11                    | 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)) |
| 10.12                     | First Amendment to Loan and Security Agreement dated July 31, 1996 by and between Universal Electronics Inc. and The Provident Bank (Incorporated by reference to Exhibit 10.22 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))  |
| *10.13                    | 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))   |
| *10.14                    | Form of Stock Option Agreement by and between Universal Electronics Inc. and certain employers used in connection with options granted to the employees pursuant to the Universal Electronics Inc. 1996 Stock Incentive Plan (Incorporated by reference to Exhibit 4.6 to the Company's Form S-8 Registration Statement filed on March 26, 1997 (File No. 333-23985))   |
| *10.15                    | 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))   |
| *10.16                    | 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))  |

## Table of Contents

| <b>Exhibit<br/>Number</b> | <b>Document Description</b>   |
|---------------------------|---|
| 10.17                     | Second Amendment to Loan and Security Agreement dated January 24, 1997 by and between Universal Electronics Inc. and The Provident Bank (Incorporated by reference to Exhibit 10.27 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))   |
| 10.18                     | Lease dated November 1, 1997 by and between Universal Electronics Inc. and Warland Investments Company (Incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, filed on March 30, 1998 (File No. 0-21044))  |
| 10.19                     | Letter Agreement in Principal dated March 18, 1998 by and between Universal Electronics Inc. and The Provident Bank further amending that certain Loan and Security Agreement (Incorporated by reference to Exhibit 10.29 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))   |
| *10.20                    | 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))  |
| *10.21                    | 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)) |
| 10.22                     | Agreement for Purchase and Sale of Property dated May 29, 1998 by and between Universal Electronics Inc., and Duke Realty Limited Partnership (Incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))  |
| 10.23                     | Agreement dated August 12, 1998 by and between Universal Electronics Inc., and David M. Gabrielsen (Incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))   |
| 10.24                     | Stock Acquisition Representations and Covenants Certificate dated September 1, 1998 from H & S Management Corp., J.C. Sparkman and Steven Helbig (Incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))   |
| 10.25                     | Non-Compete Agreement dated September 1, 1998 by and among Universal Electronics Inc., H & S Management Corp., J.C. Sparkman and Steven Helbig (Incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))   |
| 10.26                     | Consulting Agreement dated September 1, 1998 by and between Universal Electronics Inc. and J.C. Sparkman (Incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))   |
| 10.27                     | 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))   |

## Table of Contents

| <b>Exhibit<br/>Number</b> | <b>Document Description</b>  |
|---------------------------|--|
| 10.28                     | 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))   |
| 10.29                     | 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))   |
| 10.30                     | Purchase Agreement dated November 8, 1998 by and between Universal Electronics Inc. and General Instrument Corporation (Incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))  |
| 10.31                     | Warrant dated November 9, 1998 by and between Universal Electronics Inc. and General Instrument Corporation (Incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))   |
| 10.32                     | Agreement dated January 30, 1998, as amended on December 30, 1998 by and among Universal Electronics BV, a wholly owned subsidiary of Universal Electronics Inc. and Euro quality Assurance Ltd. And T. Maeizumi (Incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))  |
| 10.33                     | Agreement dated February 3, 1998, as amended on December 30, 1998 by and among Universal Electronics BV, a wholly owned subsidiary of Universal Electronics Inc., Strand Europe Ltd. and Ashok Suri (Incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999 (File No. 0-21044))   |
| *10.34                    | 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))   |
| *10.35                    | 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)) |
| *10.36                    | 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))  |
| *10.37                    | Form of Universal Electronics Inc. 1999A Nonqualified Stock Plan effective October 7, 1999 and subsequently amended February 1, 2000 (Incorporated by reference to Exhibit 10.42 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 filed on March 30,2000 (File No. 0-21044))   |

## Table of Contents

| <b>Exhibit<br/>Number</b> | <b>Document Description</b>   |
|---------------------------|---|
| *10.38                    | 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)) |
| 10.39                     | First Amendment to Revolving Loan and Security Agreement dated September 19, 2000 by and between Universal Electronics Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 filed on November 14, 2000 (File No. 0-21044))   |
| *10.40                    | Executive Officer Employment Agreement dated October 27, 2000 by and between Universal Electronics Inc. and Camille Jayne (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 filed on November 14, 2000 (File No. 0-21044))   |
| *10.41                    | Nonqualified Stock Option Agreement dated August 24, 2000 by and between Universal Electronics Inc. and Camille K. Jayne (Incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 filed on November 14, 2000 (File No. 0-21044))  |
| *10.42                    | Form of First Amendment to Stock Option Agreement dated October 27, 2000 by and between Universal Electronics Inc. and Camille K. Jayne (Incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 filed on November 14, 2000 (File No. 0-21044))   |
| *10.43                    | Executive Officer Employment Agreement dated October 27, 2000 by and between Universal Electronics Inc. and Paul D. Arling (Incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 filed on November 14, 2000 (File No. 0-21044))  |
| 10.44                     | Purchase Agreement dated August 25, 2000 by and between Universal Electronics BV, a wholly owned subsidiary of Universal Electronics Inc. and DAM Company (Incorporated by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 filed on March 28, 2001 (File No. 0-21044))  |
| 10.45                     | Extension of Revolving Loan and Security Agreement dated October 23, 2001 by and between Universal Electronics Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 10.45 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 filed on November 13, 2001 (File No. 0-21044))  |
| 10.46                     | Termination Agreement dated August 1, 2001 by and between Universal Electronics Inc. and Camille K. Jayne (Incorporated by reference to Exhibit 10.46 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 filed on November 13, 2001 (File No. 0-21044))  |
| 10.47                     | Consulting Agreement dated August 1, 2001 by and between Universal Electronics Inc. and Camille K. Jayne (Incorporated by reference to Exhibit 10.47 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 filed on November 13, 2001 (File No. 0-21044))   |
| *10.48                    | Form of Executive Officer Employment Agreement dated May 14, 2001 by and between Universal Electronics Inc. and Robert P. Lilleness (filed herewith)  |

[Table of Contents](#)

| <b>Exhibit<br/>Number</b> | <b>Document Description</b>                                    |
|---------------------------|--|
| 21.1                      | List of Subsidiaries of the Registrant (filed herewith)        |
| 23.1                      | Consent of PricewaterhouseCoopers LLP (filed herewith)         |
| 24.1                      | Power of Attorney (filed as part of the signature page hereto) |

- Management contract or compensation plan or arrangement identified pursuant to Item 14(c) of Form 10-K.

EXECUTIVE OFFICER  
EMPLOYMENT AGREEMENT

THIS EXECUTIVE OFFICER EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into this 14th day of May 2001 (the "Effective Date") by and between UNIVERSAL ELECTRONICS INC. (the "Employer") and ROBERT P. LILLENES ("Executive").

## RECITALS:

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

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

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

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

## 1. EMPLOYMENT

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

## 2. TITLE, AUTHORITY AND DUTIES

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

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

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

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

### 3. TERM OF EMPLOYMENT AND TERMINATION

(a) TERM. Unless earlier terminated as provided herein, the term of this Agreement shall commence at the start of business on the Effective Date of this Agreement and shall continue through the end of business on May 31, 2002 (the "Initial Term"). Unless terminated by either party by giving the other party written notice of an intent not to renew this Agreement at least one hundred twenty (120) days prior to the end of the Initial Term or any successive one (1) year term, this Agreement shall automatically extend for one (1) additional year after the Initial Term and then again for a one (1) year term after each successive year.

(b) TERMINATION.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(10) The occurrence of any of the items set forth in paragraphs (1) through (9) of this subsection 3(b)(ii), if, in the reasonable determination by the Executive, such occurrence happens as a result of and within the shorter of six (6) months or the remaining term of this Agreement following a "Change in Control" (as such term is defined below). For the purposes of this Agreement, a "Change in Control" shall be deemed to occur when and only when the first of the following events occurs:

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

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

c. (i) The merger or consolidation of the Corporation with any other corporation or entity, other than a merger or consolidation which would result in the Voting Stock outstanding immediately prior thereto continuing to represent (either by remaining

outstanding or by being converted into voting securities of the surviving entity) at least 80% of the total voting power represented by the Voting Stock or the voting securities of such surviving entity outstanding immediately after such merger or consolidation, (ii) the sale, transfer or disposition of all or substantially all of the Corporation's assets to any other corporation or entity, or (iii) the dissolution or liquidation of the Corporation.

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

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

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

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

(ii) BY EXECUTIVE FOR GOOD REASON.

(1) Executive shall be paid by Employer in a lump sum within twenty (20) business days of such termination, an amount that is equal to the sum of the following:

(A) The amount equivalent to salary payments for twelve (12) months at that rate of pay which is not less than Executive's rate of Base Cash Salary in effect immediately prior to the effective date of such termination (without regard to any attempted reduction or discontinuance of such salary); and

(B) The amount equivalent to twelve (12) months multiplied by the greater of (i) the monthly rate of the bonus payment for the bonus period in the year immediately prior to Executive's termination date or (ii) the estimated amount of the bonus for the period which includes Executive's termination date (without regard to any attempted reduction or discontinuance of such bonus).

(2) In addition to such amount under subsection 3(c)(ii)(1) above, Executive shall also receive, (i) in cash, the value of the incentive compensation (including, but not limited to, employer contributions to the Universal Electronics Inc. 401(K) and Profit Sharing Plan) and (ii) the rights to receive grants of stock options and stock awards to which he would have been entitled under all incentive compensation and stock option and stock award plans maintained by Employer if Executive had remained in the employ of Employer for twelve (12) months (without regard to any attempted reduction or discontinuance of such incentive compensation). The amount of such payment and/or grants shall be determined as of the date of termination and shall be paid and/or issued as promptly as practicable and in no event later than 30 days after such termination.

(3) Employer shall also maintain in full force and effect for the Executive's continued benefit (and, to the extent applicable, the continued benefit of her dependents) all of the employee benefits (including, not limited to, coverage under any medical and insurance plans, programs or arrangements) to which he would have been entitled under all employee benefit plans, programs or arrangements maintained by Employer if Executive had remained in the employ of Employer for twelve (12) months (without regard to any attempted reduction or discontinuance of such benefits), or if such continuation is not possible under the terms and provisions of such plans, programs or arrangements, Employer shall arrange to provide benefits substantially similar to those which Executive (and, to the extent applicable, his dependents) would have been entitled to receive if he had remained a participant in such plans, programs or for such twelve (12) month period.

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

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

(iv) SUBMISSION OF RESIGNATIONS BY EXECUTIVE. Upon termination of this Agreement by either Employer or Executive as set forth herein and the receipt by Executive of (1) all cash amounts due him as set forth herein and (2) a written representation signed by an authorized representative of Employer that all non-cash obligations of Employer as set forth herein have been fulfilled or, as the case may be, have been commenced, Executive shall immediately submit Executive's resignation for any and all offices or directorships of Employer and/or any and all subsidiaries and affiliates of Employer which resignation shall have retroactive application and effect to such termination date; provided however that during such time period from the effective date of such termination to the date Executive submits his resignation, Executive acknowledges and agrees that he does not have authority to bind Employer to any contracts or commitments and agrees not to create any obligation for Employer or bind or attempt to bind Employer in any manner whatsoever. Executive also acknowledges that he shall have no supervisory or managerial responsibility or authority from and after the effective date of his termination, regardless of whether he submits the resignation or not, and agrees not to involve himself in any activities of Employer, except as may be requested by the an authorized officer of Employer.

#### 4. TOTAL COMPENSATION

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

(a) BASE CASH SALARY. A salary at the rate of Two Hundred and Fifty Thousand Dollars (US\$250,000) per annum (the "Base Cash Salary"), which shall be deemed to accrue from day to day, payable in accordance with Employer's standard payroll practices and procedures;

(b) BONUS. A bonus calculated in accordance with the plans or programs established by Employer from time to time payable in accordance with Employer's standard payroll practices and procedures; provided that any such bonuses whenever earned and paid

shall be determined without regard to any material gains and losses which occur outside of the scope of Employer's ordinary operating business unless any such plans or programs explicitly include such material gains and losses within the determination of any such bonuses;

(c) STOCK OPTIONS. Stock options grants or stock awards in accordance with the plans or programs established by Employer from time to time; provided that on the Effective Date of this Agreement, Executive shall be granted stock options in accordance with and as set forth in Exhibit A;

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

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

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

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

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

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

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

to the Employer with respect to the contributions to such plans, or are discontinued as a matter of the Employer's policy applied equally to all participants.

#### 5. ADJUSTMENTS IN CASE OF EXCESS PARACHUTE PAYMENTS

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

#### 6. REIMBURSEMENT FOR BUSINESS RELATED EXPENSES

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

#### 7. INTEREST

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

#### 8. NOTICES

Written notices to be given under this Agreement shall be personally delivered or sent by overnight courier (such as Federal Express, DHL or UPS and the like) or by registered or certified mail, return receipt requested, to the addresses set forth below:

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

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

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

#### 9. SEVERABILITY

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

#### 10. GOVERNING LAW

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

#### 11. WAIVER

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

#### 12. ENTIRE AGREEMENT AND MODIFICATION

This Agreement, together with that certain Nonrecourse Secured Promissory Note and Deed of Trust with Assignment of Rents (Short Form) as both are described more fully in Section 19 of this Agreement, sets forth the entire agreement of the parties concerning the employment of Executive by the Employer and any oral or written statements, representations, agreements or understandings made or entered into prior to or contemporaneously with the execution of this Agreement, including without limitation that certain offer letter dated April 19, 2001, are hereby rescinded, revoked, and rendered null and void by the parties. This Agreement may be modified only by a written instrument duly executed by each party hereto.

#### 13. ASSIGNMENT

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

#### 14. INTERPRETATION OF AGREEMENT

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

#### 15. SPECIFIC OBLIGATIONS OF THE EXECUTIVE

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

16. NONDISCLOSURE AND NONAPPROPRIATION OF INFORMATION AND NONCOMPETITION

(a) Executive recognizes and acknowledges that while employed by Employer, he has and will have access to, learn, be provided with and, in some cases, prepare and create certain confidential, proprietary business information and/or trade secrets for Employer, including, but not limited to, lists, files and forms, (hereinafter collectively referred to as the "trade secrets"), all of which are of substantial value to Employer and its business. In this connection, Executive expressly covenants and agrees, during his employment with Employer, to:

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

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

(iii) Not reveal, divulge or make known to any person, firm, corporation or other entity any trade secrets of Employer; and

(iv) Not reveal, divulge or make known to any person (other than his spouse, attorney and/or accountant), firm, company or corporation any of the terms of this Agreement.

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

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

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

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

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

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

#### 17. SURVIVAL OF OBLIGATIONS

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

#### 18. ARBITRATION

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

19. RELOCATION LOAN MADE TO EXECUTIVE

At such time as demanded by Executive, Employer shall loan One Hundred Thousand Dollars (\$100,000) to Executive which Executive shall use solely for relocating his home and family from his present place of residence in Austin, Texas to a new residence located in Southern California and in this connection the Executive shall execute and deliver to Employer a Nonrecourse Secured Promissory Note and Deed of Trust with Assignment of Rents (Short Form) in favor of Employer in the form acceptable to Employer, the terms and conditions of which are incorporated into this Agreement by this reference. On each December 15 during the term of such Note and on the payment of principal of the Note, Employer shall pay to Executive an amount equal to 1.045 times the amount of interest due by Executive under the Note as of each of such dates (the "Interest Compensation"), regardless of whether Executive is employed by Employer on such dates. Such loan and such Interest Compensation is in addition to all amounts to be paid and/or reimbursed to Executive pursuant to Employer's Executive Relocation Policy.

IN WITNESS WHEREOF, the parties have executed the Agreement as of this 14th day of May, 2001

Signed and acknowledged in the presence of:

UNIVERSAL ELECTRONICS INC.

By:

-----  
Corporate Secretary

-----  
Paul D. Arling, Chief Executive Officer

ROBERT P. LILLENES

-----  
Signature

EXHIBIT A

STOCK OPTION AWARD

PURSUANT TO SECTION 4(c)

Options to acquire up to 125,000 shares of the common stock of Employer with an exercise price determined as market price of the average of the beginning and the end of business on April 25, 2001, the date of your acceptance of Employer's offer of employment. These options shall vest at a rate of 25% per year for four years, but all in accordance with the terms and conditions of the Stock Option Agreement and Stock Option Plans of Employer.

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

PURSUANT TO SECTION 19

[TO BE PROVIDED TO EXECUTIVE WHEN LOAN REQUESTED PURSUANT TO SECTION 19]

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)

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 No. 33-66426 filed on or about July 23, 1993, No. 333-09021 filed on July 26, 1996, No. 333-23985 filed on March 26, 1997, No. 333-91101 filed on November 17, 1999, No. 333-95715 filed on January 31, 2000, and No. 333-47378 filed on October 5, 2000 of Universal Electronics Inc. of our report dated January 22, 2002, relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Orange County, California  
March 27, 2002