UNIVERSAL ELECTRONICS INC
Form 10-K
March 16, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from __________ to __________

Commission File Number: 0-21044

UNIVERSAL ELECTRONICS INC.

(Exact Name of Registrant as Specified in its Charter)

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

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

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

Common Stock, par value $.01 per share	**Nasdaq Global Select Market**
(Title of Class)	(Name of each exchange on which registered)

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

None

Indicate by check mark if whether the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act).

Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No þ

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, any Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes o No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2010, the last business day of the registrant s most recently completed third fiscal quarter was $183,312,690 based upon the closing sale price as reported on the NASDAQ Global Select Market for that date.

On March 11, 2011, 14,980,213 shares of Common Stock, par value $.01 per share, of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant s notice of annual meeting of shareowners and proxy statement to be filed pursuant to Regulation 14A within 120 days after registrant s fiscal year end of December 31, 2010 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, 2011.

Except as otherwise stated, the information contained in this Form 10-K is as of December 31, 2010.

Exhibit Index appears on page 95. This document contains 98 pages.

UNIVERSAL ELECTRONICS INC.
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2010
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Forward-Looking Statements

This Annual Report on Form 10-K, including ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS , contains statements that may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are statements that may be deemed forward-looking statements. Forward-looking statements include but are not limited to any projections of revenue, margins, expenses, tax provisions, earnings, cash flows, benefit obligations, share repurchases or other financial items; plans, strategies and objectives of management for future operations; expected development or relating to products or services; labor issues, particularly in Asia; future economic conditions or performance; pending claims or disputes; expectation or belief; and assumptions underlying any of the foregoing.

These forward-looking statements are based upon management s assumptions. While we believe the forward-looking statements made in this report are based upon reasonable assumptions, any assumption is subject to a number of risks and uncertainties. If these risks and uncertainties ever materialize and management s assumptions prove incorrect, our results may differ materially from those expressed or implied by these forward-looking statements and assumptions. Further, any forward-looking statement speaks only as of the date the statement is made. We are not obligated to update forward-looking statements to reflect unanticipated events or circumstances occurring after the date the statement was made. New factors emerge from time to time. It is not possible for management to predict or assess the impact of all factors on the business, or the extent they 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.

Management assumptions that are subject to risks and uncertainties include those that are made about macroeconomic and geopolitical trends and events; foreign currency exchange rates; the execution and performance of contracts by customers, suppliers and partners; the challenges of managing asset levels, including inventory; the difficulty of aligning expense levels with revenue changes; the outcome of pending legislation and accounting pronouncements; and other risks described in this report, including those discussed in ITEM 1A. RISK FACTORS , and described in our Securities and Exchange Commission filings subsequent to this report.

PART I

ITEM 1. BUSINESS

Business of Universal Electronics Inc.

Universal Electronics Inc. was incorporated under the laws of Delaware in 1986 and began operations in 1987. The principal executive offices are located at 6101 Gateway Drive, Cypress, California 90630. As used herein, the terms we , us and our refer to Universal Electronics Inc. and its subsidiaries unless the context indicates to the contrary. Additional information regarding UEI may be obtained at www.uei.com.

Acquisition of Enson Assets Limited

On November 3, 2010, our subsidiary, UEI Hong Kong Private Limited, entered into a stock purchase agreement with CG International Holdings Limited to acquire all of the issued shares in the capital of Enson Assets Limited (Enson) for total consideration of approximately $125.8 million. The consideration consisted of $95.0 million in cash and 1,460,000 of newly issued shares of UEI common stock.

Enson is a leading manufacturer of remote controls. Prior to the acquisition, Enson was also one of our significant suppliers. During the years ended December 31, 2010, 2009 and 2008 Enson supplied 20.5%, 24.1% and 20.6% of our inventory purchases.

The Enson corporate office, located in Hong Kong, is approximately 6,000 square feet and employs 50 people. Enson controls two factories located in the Peoples Republic of China (PRC).

The southern factory is located in Guang Dong Province, PRC within the city of Guang Zhou. The Guang Zhou factory is approximately 710,203 square feet and employs 787 people, with an additional 4,393 factory workers contracted through an agency agreement.

The northern factory is located in Jiang Su Province, PRC within the city of Yang Zhou. The Yang Zhou factory is approximately 1,204,697 square feet and employs 418 people, with an additional 4,502 factory workers contracted through an agency agreement.

Business Segment

Overview

Universal Electronics Inc. develops and manufactures a broad line of products, software, and technologies that are marketed to enhance home entertainment systems. Our offerings include the following:

- easy-to-use, pre-programmed universal infrared (IR) and radio frequency (RF) remote controls that are sold primarily to subscription broadcasting providers (cable and satellite), original equipment manufacturers (OEMs), consumers, internet protocol television (IPTV) providers, and private label customers;

- audio-video (AV) accessories sold to consumers;

- integrated circuits, on which our software and universal IR remote control database is embedded, sold primarily to OEMs, IPTV providers and private label customers;

- intellectual property which we license primarily to OEMs, software development companies, private label customers, and subscription broadcasting providers; and

- software, firmware and technology solutions that can enable devices such as TVs, set-top boxes, stereos, automotive audio systems, cell phones and other consumer electronic devices to wirelessly connect and interact with home networks and interactive services to deliver digital entertainment and information.

Our business is comprised of one reportable segment.

Principal Products and Markets

Our principal markets include the subscription broadcasting, OEM, retail, and private label companies that operate in the consumer electronics market.

We provide subscription broadcasters and IPTV providers both domestically and internationally, with our universal remote control devices and integrated circuits, on which our software and IR code database is embedded, to support the demand associated with the deployment of digital set-top boxes that contain the latest technology and features. We also sell our universal remote control devices and integrated circuits, on which our software and IR code database is embedded, to OEMs that manufacture wirelessly controlled devices or digital set-top boxes.

For the years ended December 31, 2010, 2009, and 2008, our sales to DIRECTV and its sub-contractors collectively accounted for 13.7%, 21.1% and 19.3% of our net sales, respectively. Our sales to Comcast Communications, Inc. and its sub-contractors collectively accounted for 12.9%, 11.1% and 13.4% of our net sales for the years ended December 31, 2010, 2009 and 2008, respectively. No other single customer accounted for 10% or more of our net sales in 2010, 2009, or 2008.

We continue to pursue further penetration of the more traditional OEM consumer electronics markets. Customers in these markets generally package our wireless control devices for resale with their AV home entertainment products.

Growth in this market has been driven by the proliferation and increasing complexity of home entertainment equipment, emerging digital technology, multimedia and interactive internet applications, and the increasing number of OEMs. On November 4, 2010, we acquired Enson Assets Limited (Enson) for total consideration of approximately $125.8 million. This acquisition expanded the breadth and depth of our customer base in the OEM market, particularly in Asia.

We continue to place significant emphasis on expanding our sales and marketing efforts to subscription broadcasters and OEMs in Asia, Latin America and Europe. Our acquisition of Enson will enhance our ability to compete in the OEM and subscription broadcasting markets, particularly in Asia. In addition, during 2010 we opened a new subsidiary in Brazil, which will allow us to increase our reach and better compete in the Latin American subscription broadcast and IPTV markets. We will continue to add new sales and administrative people to support anticipated sales growth in these markets over the next few years.

In the international retail markets, our *One For All*® brand name remote control and accessories accounted for 12.4%, 12.6%, and 15.6% of our total net sales for the years ended December 31, 2010, 2009, and 2008, respectively. Throughout 2010, we continued our international retail sales and marketing efforts. Financial information relating to our international operations for the years ended December 31, 2010, 2009, and 2008 is included in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-Notes to Consolidated Financial Statements-Note 15 .

During the second quarter of 2008, we signed an agreement with Audiovox Accessories Corporation to be the exclusive supplier of embedded microcontrollers and infrared database software for Audiovox s complete line of RCA universal remote controls sold in the North American retail market. We also agreed to develop remote controls in the future for existing brands in the Audiovox lineup and granted Audiovox an exclusive license to sell and distribute our *One For All*® brand remote controls and accessories in North America.

Intellectual Property and Technology

We hold a number of patents in the United States and abroad related to our products and technology, and have filed domestic and foreign applications for other patents that are pending. We had a total of 206 and 187 issued and pending United States patents at the end of 2010 and 2009, respectively. The increase in the number of issued and pending patents in the United States resulted from 32 new patent filings, offset by our abandonment of 4 patents and the expiration of 9 patents.

Our patents have remaining lives ranging from approximately one to eighteen years. We have also obtained copyright registration and claim copyright protection for certain proprietary software and libraries of IR codes. Additionally, the names of many of our products are registered, or are being registered, as trademarks in the United States Patent and Trademark Office and in most of the other countries in which such products are sold. These registrations are valid for terms ranging up to 20 years and may be renewed as long as the trademarks continue to be used and are deemed by management to be important to our operations. While we follow the practice of obtaining patent, copyright and trademark registrations on new developments whenever advisable, in certain cases, we have elected common law trade secret protection in lieu of obtaining such other protection.

Since our beginning in 1986, we have compiled an extensive IR code library that covers over 508,000 individual device functions and over 4,200 individual consumer electronic equipment brand names. Our library is regularly updated with IR codes used in newly introduced AV devices. These IR codes are captured directly from the remote control devices or the manufacturer s written specifications to ensure the accuracy and integrity of the database. We believe that our universal remote control database is capable of controlling virtually all IR controlled TVs, VCRs, DVD players, cable converters, CD players, audio components and satellite receivers, as well as most other infrared remote controlled home entertainment devices and home automation control modules worldwide.

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

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With today s rapidly changing technology, upgradeability ensures the compatibility of our remote controls with future home entertainment devices. We have developed patented technology that provides users the capability to easily upgrade the memory of our remote controls with IR codes that were not originally included using their entertainment device, personal computer or telephone. These options utilize one or two-way communication to upgrade the remote controls IR codes or firmware depending on the requirements.

Each of our wireless control devices is designed to simplify the use of home entertainment and other equipment. To appeal to the mass market, the number of buttons is minimized to include only the most popular functions. Another ease of use feature we offer in several of our products is our user programmable macro key. This feature allows the user to program a sequence of commands onto a single key, to be played back each time that key is subsequently pressed.

Our remote controls are also designed for easy set-up. For most of our products, the consumer simply inputs a four-digit code for each device to be controlled. During 2007, building on our strategy to develop new products and technologies to further simplify remote control set-up, we created the web-based EZ-RC™ Remote Control Setup Wizard application. Once our wireless device is connected to a personal computer, our customers may utilize the EZ-RC™ Remote Control Setup Wizard web-based application s graphical interface to fully program the remote control. Each remote control user may create their own personal profile on the device with their favorite channels, custom functions, and more. We launched products utilizing the EZ-RC™ Remote Control Setup Wizard web-based application into the international retail market during the fourth quarter of 2008 and the North American retail market during the third quarter of 2009. During 2010, we continued to enhance our EZ-RC Remote Control Setup Wizard application, and to release additional products capable of connecting to it.

UEI QuickSet is a firmware application that may be embedded on an AV device, such as a set-top box. UEI QuickSet enables universal remote control set-up using guided on-screen instructions and a wireless two-way communication link between the remote and the UEI QuickSet embedded AV equipment. UEI s XMP-2 technology, an extensible multimedia protocol, enables the two-way wireless communication between the universal remote control and the AV device, allowing IR code data and configuration settings to be sent to the remote control from the AV equipment. The user identifies the type and brand of the device to be controlled and then the UEI QuickSet application performs a test to confirm that the remote is controlling the equipment correctly. UEI QuickSet also saves the user-defined remote setting, enabling consumers to quickly transfer the setup configuration to a replacement remote. When the AV device has network connectivity, the IR code database and application may be continually updated to include the latest devices and functions.

During 2010, we released an upgrade to our UEI QuickSet application. The latest version of UEI QuickSet, version 1.5, utilizes data transmitted over HDMI to automatically detect a connected device and then determine and download the correct code into the remote control without the need for the user to enter in any additional information. The user does not need to know the model number or brand to setup the device in the remote. Any new device that is connected is recognized. Consumers can easily and quickly set-up their remotes to control multiple devices.

Also during 2010, we developed our Low Energy IR Engine (LowEIR). LowEIR uses a combination of silicon, hardware, and software to substantially reduce energy usage in IR remotes without sacrificing performance. With LowEIR, battery life may be extended by years on traditional two battery infrared remote control designs. LowEIR is compatible with all IR protocols and is especially efficient with our XMP® and XMP-2 protocols. Implementation does not require any modifications to the target device and is scalable to support a wide range of performance requirements. Because LowEIR requires less energy, and potentially fewer batteries, this may reduce waste and tariffs, making it both an environmentally friendly option for consumers and a financially sound solution for device manufacturers and system operators.

Our Universal Remote Application Programming Interface (UAPI) is integrated into a remote and its target device, such as set-top box or television, allowing device manufacturers to extend existing remote control standards to deliver an enhanced consumer control experience. UAPI greatly reduces the time required to design and develop advanced, custom features that require synchronization between the remote and target device. UAPI enables support for a variety of new interface technologies, such as capacitive touch or optical finger navigation. In addition, UAPI has native support for the UEI QuickSet application which delivers simplified device setup experience. UAPI focuses on consumer-centric applications around the home theater experience and delivers a risk-free path for OEMs to develop solutions that extend the interface into the hands of the user.

Methods of Distribution

Our distribution methods for our remote control devices are dependent on the sales channel. We distribute remote control devices directly to subscription broadcasters and OEMs, both domestically and internationally. In the North American retail channel, we license our *One For All*® brand name to Audiovox, who in turn sells products directly to certain domestic retailers and third party distributors. Outside of North America, we sell our wireless control devices and AV accessories under the *One For All*® and private label brand names to retailers through our international subsidiaries. We utilize third party distributors for the retail channel in countries where we do not have subsidiaries.

We have developed a broad portfolio of patented technologies and the industry s leading database of IR codes. We ship integrated circuits, on which our software and IR code database is embedded, directly to manufacturers for inclusion in their products. In addition, we license our software and technology to manufacturers. Licenses are delivered upon the transfer of a product master or on a per unit basis when the software or technology is used in a customer device.

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

Our twenty-four international subsidiaries are the following:

- Universal Electronics B.V., established in the Netherlands;
- One For All GmbH, established in Germany;
- One for All Iberia S.L., established in Spain;
- One For All UK Ltd., established in the United Kingdom;
- One For All Argentina S.R.L., established in Argentina;
- One For All France S.A.S., established in France;
- Universal Electronics Italia S.R.L. established in Italy;
- UE Singapore Pte. Ltd., established in Singapore;
- UEI Hong Kong Pte. Ltd., established in Hong Kong
- UEI Electronics Pte. Ltd., established in India;
- UEI Cayman Inc., established in the Cayman Islands;
- Ultra Control Consumer Electronics GmbH, established in Germany;

UEI Hong Kong Holdings Co. Pte. Ltd., established in Hong Kong;

Universal Electronics (Shenzhen) LLC., established in the PRC;

UEI Brasil Controles Remotos Ltda., established in Brazil;

Enson Assets Ltd., established in the British Virgin Islands;

C.G. Group Ltd., established in the British Virgin Islands;

C.G. Development Ltd., established in Hong Kong;

Gemstar Technology (China) Co. Ltd., established in the PRC;

Gemstar Technology (Yang Zhou) Co. Ltd., established in the PRC;

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- C.G. Technology Ltd., established in Hong Kong;
- Gemstar Polyfirst Ltd., established in Hong Kong;
- C.G. Timepiece Ltd., established in Hong Kong;
- C.G. Asia Ltd., established in the British Virgin Islands.

Raw Materials and Dependence on Suppliers

We utilize our own manufacturing plants and third-party manufacturers and suppliers primarily located within the PRC to produce our wireless control products. In 2010, Computime and Samsung each provided more than 10% of our total inventory purchases. They collectively provided 34.2% of our total inventory purchases for 2010. In 2009 and 2008, Computime, C.G. Development, Samsung and Samjin each provided more than 10% of our total inventory purchases. They collectively provided 77.4% and 73.1% of our total inventory purchases for 2009 and 2008, respectively.

Even though we own and operate two factories in the PRC, we continue to evaluate additional contract manufacturers and sources of supply. During 2010, we utilized multiple contract manufacturers and maintained duplicate tooling for certain of our products. Where possible we utilize standard parts and components, which are available from multiple sources. We continually seek additional sources to reduce our dependence on our integrated circuit suppliers. To further manage our integrated circuit supplier dependence, we include flash microcontroller technology in most of our products. Flash microcontrollers can have shorter lead times than standard microcontrollers and may be reprogrammed, if necessary. This allows us flexibility during any unforeseen shipping delays and has the added benefit of potentially reducing excess and obsolete inventory exposure. This diversification lessens our dependence on any one supplier and allows us to negotiate more favorable terms.

Seasonality

Historically, our business has been influenced by the retail sales cycle, with increased sales in the last half of the year. We expect this pattern to be repeated during 2011.

See ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA Notes to the Consolidated Financial Statements Note 22 for further details regarding our quarterly results.

Competition

Our principal competitors in the subscription broadcasting market are Philips Consumer Electronics, Universal Remote Control and Contec. In the international retail and private label markets for wireless controls we compete with Philips Consumer Electronics, Logitech, Ruwido and Sony, as well as various manufacturers of wireless controls in Asia. Our primary competitors in the OEM market are the original equipment manufacturers themselves and wireless control manufacturers in Asia. We compete against Universal Remote Control, Logitech, and Ruwido in the IR database market. Our North American retail products compete against Universal Remote Control, Philips Consumer Electronics, Logitech, Sony and many others. We compete in our markets on the basis of product quality, features, price, intellectual property and customer support. We believe that we will need to continue to introduce new and innovative products to remain competitive and to recruit and retain competent personnel to successfully accomplish our future objectives.

Engineering, Research and Development

During 2010, our engineering efforts focused on the following:

- broadening our product portfolio;
- modifying existing products and technologies to improve features and lower costs;
- formulating measures to protect our proprietary technology and general know-how;

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- improving our software so that we may pre-program more codes into our memory chips;
- simplifying the set-up and upgrade process for our wireless control products; and
- updating our library of IR codes to include IR codes for new features and devices introduced worldwide.

Our engineering efforts included the development of new remote controls that combine consumer friendly interfaces and intuitive setup with advance functions. These new products included our *One For All*® SmartControl and Dolphin remotes released during 2010. The *One For All*® SmartControl enables the user to control multiple devices without the need to switch between devices on the remote control. The *One For All*® SmartControl also leverages UEI SimpleSet technology and may be setup by simply identifying the target device type and brand. The Dolphin point-and-click, universal remote control addresses the connected and 3-D television markets. Equipped with advanced motion-detection technology, the ergonomic Dolphin controller enables fast, intuitive navigation through multiple menus, channels, or content selections by translating the user s natural hand movements into on-screen cursor movements.

During 2010, our engineering efforts also focused on developing solutions for our customers. These new products included our Universal Remote Application Programming Interface (UAPI) and Low Energy IR Engine (LowEIR). UAPI is integrated into a remote and its target device, allowing device manufacturers to significantly reduce the time required to design and develop advanced, custom features that require synchronization between the remote and target device. UAPI enables support for a variety of new interface technologies, such as capacitive touch or optical finger navigation and has native support for the UEI QuickSet application which delivers simplified device setup experience. Our LowEIR uses a combination of silicon, hardware, and software to significantly reduce energy usage in IR remotes without sacrificing performance. Because LowEIR requires less energy, and potentially fewer batteries, this may reduce waste and tariffs, making it both an environmentally friendly option for consumers and a financially sound solution for device manufacturers and system operators.

We continued to improve our existing products during 2010. We released several software updates to our web based EZ-RC Remote Control Setup Wizard application. We also released an upgrade to our UEI QuickSet application during 2010. The latest version of UEI QuickSet, version 1.5, utilizes data transmitted over HDMI to automatically detect a connected device and then determine and download the correct code into the remote control without the need for the user to enter in any additional information.

On February 18, 2009, we acquired certain patents, intellectual property and other assets related to the universal remote control business from Zilog Inc. (NASDAQ: ZILG) for approximately $9.5 million in cash. The purchase included Zilog s full library and database of infrared codes and software tools. We also hired 116 of Zilog s sales and engineering personnel, including all 107 of Zilog s personnel located in India. The engineering personnel acquired from Zilog are focused on the capture of IR codes and the development of firmware leading to more complete solutions to customer needs, the conceptual formulation and design of possible alternatives, as well as the testing of process and product cost improvements. These efforts will enable us to provide customers with reductions in design cycle times, lower costs, and improvements in integrated circuit design, product quality and overall functional performance. These efforts will also enable us to further penetrate existing markets, pursue new markets more effectively and expand our business.

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

Our expenditures on engineering, research and development were:

(in millions):	2010	2009	2008
Research and development [1]	$ 10.7	$ 8.7	$ 8.2
Engineering [2]	9.5	9.4	7.3
Total engineering, research and development	$ 20.2	$ 18.1	$ 15.5

(1) Research and development expense for the years ended December 31, 2010, 2009, and 2008 includes $0.5 million, $0.4 million, and $0.4 million of stock-based compensation expense, respectively.

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

Environmental Matters

Many of our products are subject to various federal, state, local and international laws governing chemical substances in products, including laws regulating the manufacture and distribution of chemical substances and laws restricting the presence of certain substances in electronics products. We may incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, third-party damages or personal injury claims, if we were to violate or become liable under environmental laws or if our products become non-compliant with environmental laws. We also face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the materials composition of our products.

We may also face significant costs and liabilities in connection with product take-back legislation. The European Union enacted the Waste Electrical and Electronic Equipment Directive (WEEE), which makes producers of electrical goods, including computers and printers, financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. During 2007, the majority of our European subsidiaries became WEEE compliant. Our Italian subsidiary became compliant in February 2008. Similar legislation has been or may be enacted in other jurisdictions, including in the United States, Canada, Mexico, PRC and Japan.

We believe that we have materially complied with all currently existing international and domestic federal, state and local statutes and regulations regarding environmental standards and occupational safety and health matters to which we are subject. During the years ended December 31, 2010, 2009 and 2008, the amounts incurred in complying with federal, state and local statutes and regulations pertaining to environmental standards and occupational safety and health laws and regulations did not materially affect our earnings or financial condition. However, future events, such as changes in existing laws and regulations or enforcement policies, may give rise to additional compliance costs that may have a material adverse effect upon our capital expenditures, earnings or financial condition.

Employees

At December 31, 2010, we employed 1,843 employees, of which 430 worked in engineering and research and development, 85 in sales and marketing, 118 in consumer service and support, 986 in operations and warehousing and 224 in executive and administrative functions.

On November 4, 2010, we acquired Enson Assets Limited. As a result of this transaction, we acquired 1,255 of our 1,843 employees, of which 157 worked in engineering and research and development, 17 in sales and marketing, 933 in operations and warehousing and 148 in executive and administrative functions. In addition, Enson has an additional 8,895 factory workers contracted through agency agreements.

None of our employees are subject to a collective bargaining agreement or represented by a union. We consider our employee relations to be good.

International Operations

Financial information relating to our international operations for the years ended December 31, 2010, 2009 and 2008 is incorporated by reference to ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA Notes to Consolidated Financial Statements Note 15 .

Available Information

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

Executive Officers of the Registrant(1)

The following table sets forth certain information concerning our executive officers on March 16, 2011:

Name	Age	Position
Paul D. Arling	48	Chairman of the Board and Chief Executive Officer
Paul J.M. Bennett	55	Executive Vice President, Managing Director, Europe
Mark S. Kopaskie	53	Executive Vice President, General Manager U.S. Operations
Richard A. Firehammer, Jr.	53	Senior Vice President, General Counsel and Secretary
Bryan M. Hackworth	41	Senior Vice President and Chief Financial Officer

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

Paul D. Arling is our Chairman and Chief Executive Officer. He joined us in May 1996 as Chief Financial Officer and was named to our Board of Directors in August 1996. He was appointed President and COO in September 1998, was promoted to Chief Executive Officer in October 2000 and appointed as Chairman in July 2001. At the 2010 Annual Meeting of Stockholders, Mr. Arling was re-elected as our Chairman to serve until the 2011 Annual Meeting of Stockholders. From 1993 through May 1996, he served in various capacities at LESCO, Inc. (a manufacturer and distributor of professional turf care products). Prior to LESCO, he worked for Imperial Wall coverings (a manufacturer and distributor of wall covering products) as Director of Planning, and The Michael Allen Company (a strategic management consulting company) where he was employed as a management consultant.

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

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

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

Bryan M. Hackworth is our Senior Vice President and Chief Financial Officer. He was promoted to Chief Financial Officer in August 2006. Mr. Hackworth joined us in June 2004 as Corporate Controller and subsequently assumed the role of Chief Accounting Officer in May 2006. Before joining us in 2004, he spent five years at Mars, Inc., a

privately held international manufacturer and distributor of consumer products and served in several financial and strategic roles (Controller Ice Cream Division; Strategic Planning Manager for the WHISKAS® Brand) and various other financial management positions. Prior to joining Mars Inc., Mr. Hackworth spent six years at Deloitte & Touche LLP as an auditor, specializing in the manufacturing and retail industries.

ITEM 1A. RISK FACTORS

Forward Looking Statements

We caution that the following important factors, among others (including, but not limited to, factors discussed below in ITEM 7. 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), may affect our actual results and may contribute to or cause our actual consolidated results to differ materially from those expressed in any of our forward-looking statements. The factors included here are not exhaustive. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor can we assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Therefore, forward-looking statements should not be relied upon as a prediction of actual future results.

While we believe that the forward-looking statements made in this report are based on reasonable assumptions, the actual outcome of such statements is subject to a number of risks and uncertainties, including the failure of our markets to continue growing and expanding in the manner we anticipated; the failure of our customers to grow and expand as we anticipated; the effects of natural or other events beyond our control, including the effects of political unrest, war or terrorist activities may have on us or the economy; the economic environment s effect on us or our customers; the growth of, acceptance of and the demand for our products and technologies in various markets and geographical regions, including cable, satellite, consumer electronics, retail, digital media/technology, CEDIA, interactive TV, automotive, and cellular industries not materializing or growing as we believed; our inability to add profitable complementary products which are accepted by the marketplace; our inability to attract and retain quality workforce at adequate levels in all regions of the world, and particularly Asia; our inability to continue to maintain our operating costs at acceptable levels through our cost containment efforts; our inability to realize tax benefits from various tax projects initiated from time to time; our inability to continue selling our products or licensing our technologies at higher or profitable margins; our inability to obtain orders or maintain our order volume with new and existing customers; the possible dilutive effect our stock incentive programs 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.

Risks Related to Doing Business in the PRC

Changes in the policies of the PRC government may have a significant impact upon the business we may be able to conduct in the PRC and the profitability of such business.

Our business operations may be adversely affected by the current and future political environment in the PRC. The PRC has operated as a socialist state since the mid-1900s and is controlled by the PRC s Communist Party. The Chinese government exerts substantial influence and control over the manner in which we must conduct our business activities. The PRC has only permitted provincial and local economic autonomy and private economic activities since 1988. The government of the PRC has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy, through regulation and state ownership. Our ability to operate in the PRC may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, labor and social insurance, import and export tariffs, raw materials, environmental regulations, land use rights, property and other matters. Under current leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of the PRC will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

The PRC s economy is in a transition from a planned economy to a market oriented economy subject to five-year and annual plans adopted by the government that set national economic development goals. Policies of the PRC government may have significant effects on the economic conditions of the PRC. The PRC government has confirmed that economic development will follow the model of a market economy. Under this direction, we believe that the PRC will continue to strengthen its economic and trading relationships with foreign countries and business development in the PRC will follow market forces. While we believe that this trend will continue, there can be no assurance that this will be the case.

A change in policies by the PRC government may adversely affect our interests by, among other factors: changes in laws, regulations or the interpretation thereof, confiscatory taxation, restrictions on currency conversion, imports or sources of supplies, or the expropriation or nationalization of private enterprises. Although the PRC government has been pursuing economic reform policies for more than two decades, there is no assurance that the government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption, or other circumstances affecting the PRC s political, economic and social life.

The PRC laws and regulations governing our current business operations are sometimes vague and uncertain. Any changes in such PRC laws and regulations may harm our business.

The PRC laws and regulations governing our current business operations are sometimes vague and uncertain. The PRC s legal system is a civil law system based on written statutes, in which decided legal cases have little value as precedents unlike the common law system prevalent in the United States. There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to the laws and regulations governing our business, or the enforcement and performance of our arrangements with customers in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. The Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, labor and social insurance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. We are considered a foreign person or foreign funded enterprise under PRC laws, and as a result, we are required to comply with PRC laws and regulations. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our businesses. If the relevant authorities find that we are in violation of PRC laws or regulations, they would have broad discretion in dealing with such a violation, including, without limitation:

- levying fines;
- revoking our business and other licenses;
- requiring that we restructure our ownership or operations; and
- requiring that we discontinue any portion or all of our business.

The fluctuation of the Chinese Yuan Renminbi may harm your investment.

On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Chinese Yuan Renminbi to the U.S. dollar. Under the new policy, the Chinese Yuan Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 23.1% appreciation of the Chinese Yuan Renminbi against the U.S. dollar as of December 31, 2010. While the international reaction to the Chinese Yuan Renminbi revaluation has generally been positive, there

remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Chinese Yuan Renminbi against the U.S. dollar.

The PRC s legal and judicial system may not adequately protect our business and operations and the rights of foreign investors.

The PRC legal and judicial system may negatively impact foreign investors. In 1982, the National People s Congress amended the Constitution of the PRC to authorize foreign investment and guarantee the lawful rights and interests of foreign investors in the PRC. However, the PRC s system of laws is not yet comprehensive. The legal and judicial systems in the PRC are still rudimentary, and enforcement of existing laws is inconsistent. The PRC judiciary is relatively inexperienced in enforcing the laws that do exist, resulting in judicial decision-making that is more uncertain than would be expected in a more developed country. It may be impossible to obtain swift and equitable enforcement of laws that do exist, or to obtain enforcement of the judgment of one court by a court of another jurisdiction. The PRC s legal system is based on the civil law regime, that is, it is based on written statutes; a decision by one judge does not set a legal precedent that is required to be followed by judges in other cases. In addition, the interpretation of Chinese laws may be varied to reflect domestic political changes.

The promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign investors. However, the trend of legislation over the last 20 years has significantly enhanced the protection of foreign investment and allowed for more control by foreign parties of their investments in Chinese enterprises. There can be no assurance that a change in leadership, social or political disruption, or unforeseen circumstances affecting the PRC s political, economic or social life, will not affect the PRC government s ability to continue to support and pursue these reforms. Such a shift may have a material adverse effect on our business and prospects.

The practical effect of the PRC legal system on our business operations in the PRC may be viewed from two separate but intertwined considerations. First, as a matter of substantive law, the Foreign Invested Enterprise laws provide significant protection from government interference. In addition, these laws guarantee the full enjoyment of the benefits of corporate Articles and contracts to Foreign Invested Enterprise participants. These laws, however, do impose standards concerning corporate formation and governance, which are qualitatively different from the general corporation laws of the United States. Similarly, the PRC accounting laws mandate accounting practices, which are not consistent with U.S. generally accepted accounting principles. PRC s accounting laws require that an annual statutory audit be performed in accordance with PRC accounting standards and that the books of account of Foreign Invested Enterprises are maintained in accordance with Chinese accounting laws. Article 14 of the People s Republic of China Wholly Foreign-Owned Enterprise Law requires a wholly foreign-owned enterprise to submit certain periodic fiscal reports and statements to designated financial and tax authorities, at the risk of business license revocation. While the enforcement of substantive rights may appear less clear than United States procedures, the Foreign Invested Enterprises and Wholly Foreign-Owned Enterprises are Chinese registered companies, which enjoy the same status as other Chinese registered companies in business-to-business dispute resolution. Any award rendered by an arbitration tribunal is enforceable in accordance with the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958). Therefore, as a practical matter, although no assurances can be given, the Chinese legal infrastructure, while different in operation from its United States counterpart, should not present any significant impediment to the operation of Foreign Invested Enterprises.

Availability of adequate workforce levels

Presently, the vast majority of workers at our newly acquired PRC factories are obtained from third-party employment agencies. As the labor laws, social insurance and wage levels continue to mature and grow and the workers become more sophisticated, our costs to employ these and other workers in the PRC may grow beyond that anticipated by management. In addition, as the PRC market continues to open up and grow, with the advent of more companies opening plants and businesses in the PRC, we could experience an increase in competing for the same workers, resulting in either an inability to attract and retain an adequate number of qualified workers or an increase in our employment costs to obtain these workers.

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Expansion in the PRC

As our global business grows, we may decide to expand in China to meet demand. This would be dependent on our ability to locate suitable facilities to support this expansion, to obtain the necessary permits and funding, to attract and retain adequate levels of qualified workers, and to enter into a long term land lease that is common in the PRC.

Any recurrence of severe acute respiratory syndrome, or SARS, or another widespread public health problem, could harm our operations.

A renewed outbreak of SARS or another widespread public health problem (such as bird flu) in the PRC, could significantly harm our operations. Our operations may be impacted by a number of health-related factors, including quarantines or closures of some of our offices that would adversely disrupt our operations. Any of the foregoing events or other unforeseen consequences of public health problems could significantly harm our operations.

Risks Related to the Recent Financial Crisis and Severe Tightening in the Global Credit Markets

General economic conditions, both domestic and international, have an impact on our business and financial results. The ongoing global financial crisis affecting the banking system and financial markets has resulted in a severe tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in credit and equity markets. This financial crisis may impact our business in a number of ways, including:

Potential deferment of purchases and orders by customers

Uncertainty about current and future global economic conditions may cause consumers, businesses and governments to defer purchases in response to tighter credit, decreased cash availability and declining consumer confidence. Accordingly, future demand for our products may differ materially from our current expectations.

Customers inability to obtain financing to make purchases from us and/or maintain their business

Some of our customers require substantial financing in order to fund their operations and make purchases from us. The inability of these customers to obtain sufficient credit to finance purchases of our products may adversely impact our financial results. In addition, if the financial crisis results in insolvencies for our customers, it may adversely impact our financial results.

Potential impact on trade receivables

Credit market conditions may slow our collection efforts as customers experience increased difficulty in obtaining requisite financing, leading to higher than normal accounts receivable balances and longer DSOs. This may result in greater expense associated with collection efforts and increased bad debt expense.

Negative impact from increased financial pressures on third-party dealers, distributors and retailers

We make sales in certain regions of the world through third-party dealers, distributors and retailers. Although many of these third parties have significant operations and maintain access to available credit, others are smaller and more likely to be impacted by the significant decrease in available credit that has resulted from the current financial crisis. If credit pressures or other financial difficulties result in insolvency for these third parties and we are unable to successfully transition our end customers to purchase products from other third parties or from us directly, it may adversely impact our financial results.

Negative impact from increased financial pressures on key suppliers

Our ability to meet customers demands depends, in part, on our ability to obtain timely and adequate delivery of quality materials, parts and components from our suppliers. Certain of our components are available only from a single source or limited sources. If certain key suppliers were to become capacity constrained or insolvent as a result of the financial crisis, it may result in a reduction or interruption in supplies or a significant increase in the price of supplies and adversely impact our financial results. In addition, credit constraints at key suppliers may result in accelerated payment of accounts payable by us, impacting our cash flow.

Dependence upon Key Suppliers

During 2010, Computime and Samsung each provided over 10% of our total inventory purchases. Purchases from these suppliers collectively amounted to $67.0 million, or 34.2%, of our total inventory purchases in 2010. During 2009 and 2008, Computime, C.G. Development, Samsung, and Samjin each provided over 10% of our total inventory purchases. Purchases from these suppliers collectively amounted to $147.8 million, or 77.4%, of our total inventory purchases in 2009. Purchases from these suppliers collectively amounted to $135.5 million, or 73.1%, of total inventory purchases during 2008.

Most of the components used in our products are available from multiple sources. However, we have elected to purchase integrated circuits, used principally in our wireless control products, from primarily three sources. To reduce our dependence on our integrated circuits suppliers we continually seek additional sources. We generally maintain inventories of our integrated circuits, which may be used in part to mitigate, but not eliminate, delays resulting from supply interruptions.

We have identified alternative sources of supply for our integrated circuit, component parts, and finished goods needs; however, there can be no assurance that we will be able to continue to obtain these inventory purchases on a timely basis. Any 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 operating results, financial position and cash flows.

Dependence on Foreign Manufacturing

Even after our acquisition of the factories in the PRC, third-party manufacturers located in the PRC will continue to manufacture a majority of our products. Our arrangements with these foreign manufacturers are subject to the risks of doing business abroad, such as tariffs, environmental and trade restrictions, intellectual property protection and enforcement, export license requirements, work stoppages, political and social instability, economic and labor conditions, foreign currency exchange rate fluctuations, and other factors, which may 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 may adversely affect our business, operating results, financial condition and cash flows until alternative manufacturing arrangements are secured.

Potential Fluctuations in Quarterly Results

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

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

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

Dependence on Consumer Preference

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

Demand for Consumer Service and Support

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

In addition, certain of our products have more features and are more complex than others and therefore require more end-user technical support. In some instances, we rely on distributors or dealers to provide the initial level of technical support to the end-users. We provide the second level of technical support for bug fixes and other issues at no additional charge. Therefore, as the mix of our products includes more of these complex product lines, support costs may increase, which may have an adverse effect on our business, operating results, financial condition and cash flows.

Dependence upon New Product Introduction

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

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

Dependence on Major Customers

The economic strength and weakness of our worldwide customers affect our performance. We sell our wireless control products, AV accessory products, and proprietary technologies to subscription broadcasters, original equipment manufacturers, and private label customers. We also supply our products to our wholly owned, non-U.S. subsidiaries and to independent foreign distributors, who in turn distribute our products worldwide, with Europe and Asia currently representing our principal foreign markets.

In each of the years ended December 31, 2010, 2009 and 2008, we had sales to DIRECTV and its sub-contractors and to Comcast Communications Inc. and its sub-contractors, that when combined, each exceeded 10% of our net sales. The loss of either of these customers or of any other key customer, either in the United States or abroad or our inability to maintain order volume with these customers, may have an adverse effect on our operating results, financial condition and cash flows.

Change in Warranty Claim Costs

We rely on third-party companies to service a large portion of our customer warranty claims. If the cost to service these warranty claims increases unexpectedly, or these outside services cease to be available, we may be required to increase our estimate of future claim costs, which may have a material adverse effect on our operating results, financial condition and cash flows.

Outsourced Labor

We employ a small number of personnel to develop and market additional products that are part of the Nevo® platform as well as products that are based on the Zigbee®, Z-Wave® and other radio frequency technology. Even after these hires, we continue to use outside resources to assist us in the development of these products. While we believe that such outside services will continue to be available to us, if they cease to be available, the development of these products may be substantially delayed, which may have a material adverse effect on our operating results, financial condition and cash flows.

Competition

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

Patents, Trademarks, and Copyrights

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

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

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

Potential for Litigation

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

Risks of Conducting Business Internationally

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

- changes in a country or region s economic or political conditions, including inflation, recession, interest rate fluctuations, forced political actions or elections, coops, and actual or anticipated military conflicts;
- currency fluctuations affecting sales, particularly in the Euro, British Pound, and the Chinese Yuan Renminbi which contribute to variations in sales of products and services in impacted jurisdictions and also affect our reported results expressed in U.S. dollars;
- currency fluctuations affecting costs, particularly the Euro, British Pound and the Chinese Yuan Renminbi , which contribute to variances in costs in impacted jurisdictions and also affect our reported results expressed in U.S. dollars;
- longer accounts receivable cycles and financial instability among customers;
- trade regulations and procedures and actions affecting production, pricing and marketing of products;
- local labor conditions, customs, and regulations;
- changes in the regulatory or legal environment;
- differing technology standards or customer requirements;
- import, export or other business licensing requirements or requirements related to making foreign direct investments, which may affect our ability to obtain favorable terms for components or lead to penalties or restrictions;
- difficulties associated with repatriating cash generated or held abroad in a tax-efficient manner and changes in tax laws; and
- fluctuations in freight costs and disruptions at important geographic points of exit and entry.

Effectiveness of Our Internal Control Over Financial Reporting

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

Changes in Generally Accepted Accounting Principles

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles. These principles are subject to revision and interpretation by various governing bodies, including the FASB and the SEC. A change in current accounting standards or their interpretation may have a significant adverse effect on our operating results, financial condition and cash flows.

Unanticipated Changes in Tax Provisions or Income Tax Liabilities

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

Inability to Use Deferred Tax Assets

We have deferred tax assets that we may not be able to use under certain circumstances. If we are unable to generate sufficient future taxable income in certain jurisdictions, or if there is a significant change in the actual effective tax rates or a significant change in the time period within which the underlying temporary differences become taxable or deductible, we may be required to increase our valuation allowances against our deferred tax assets resulting in an increase in our effective tax rate.

Environmental Matters

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

Leased Property

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

Technology Changes in Wireless Control

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

Failure to Recruit, Hire, and Retain Key Personnel

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

Change in Competition and Pricing

Even after our recent acquisition of the PRC factories, we will continue to rely on third-party manufacturers to build our universal wireless control products. Price is always an issue in winning and retaining business. If customers become increasingly price sensitive, new competition may arise from manufacturers who decide to go into direct competition with us or from current competitors who perform their own manufacturing. If such a trend develops, we may experience downward pressure on our pricing or lose sales, which may have a material adverse effect on our operating results, financial condition and cash flows.

Transportation Costs; Impact of Oil Prices

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

In addition, we have an exposure to oil prices due to the use of oil-based materials in our products, which are primarily the plastics and other components that we include in our finished products, the cost of delivery and freight, which would be passed on by the carriers that we use in the form of higher rates, political unrest in oil producing contries that could casue a cessation of production and/or delivery of oil resulting in higher costs. We record freight-in as a cost of sales and freight-out in operating expenses. Rising oil prices may have an adverse effect on cost of sales and operating expenses.

Proprietary Technologies

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

Strategic Business Transactions

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

Growth Projections

Management has made the projections required for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America regarding future events and the financial performance of the company, including those involving:

- the benefits the company expects as a result of the development and success of products and technologies, including new products and technologies;

- the benefits expected by entering into emerging markets such as Asia and Brazil, without which, we may not be able to recover the costs we incur to enter into such markets;

- the recently announced new contracts with new and existing customers and new market penetrations;

- the growth expected as a result of the digital from analog conversion;

- the expected continued growth in digital TVs, PVRs and overall growth in the company s industry; and

- the effects we may experience due to the continued softness in worldwide markets driven by the current economic environment.

Actual events or results may be unfavorable to management s projections, which may have a material adverse effect on our projected operating results, financial condition and cash flows.

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

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ITEM 2. PROPERTIES

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

Location	Purpose or Use	Square Feet	Status
Cypress, California	Corporate headquarters, engineering, research and development	34,080	Leased, expires January 31, 2012
Twinsburg, Ohio	Call center	21,509	Leased, expires May 31,2014
Enschede, Netherlands	European headquarters and call center	18,292	Leased, expires September 30, 2013
Bangalore, India	Engineering, research and development	17,713	Leased, expired January 31, 2011
Shenzhen, PRC	Engineering, quality assurance, research and development	6,127	Leased, expires February 15, 2013
San Mateo, California	Engineering, research and development	4,868	Leased, expires June 30, 2011
Hong Kong, China	Operations and administrative services	3,060	Leased, expires November 15, 2011
Hong Kong, China	Asian headquarters	6,000	Leased, expires on January 14, 2012
Guang Zhou, China(1)	Manufacturing facility	710,203	Land leased, expires June 30, 2044
Yang Zhou, PRC(1)	Manufacturing facility	1,204,697	Land leased, expires July 31, 2055
Manaus, Brazil	Manufacturing facility under development	2,153	Leased, expires September 14, 2013

(1) Private ownership of land in the PRC is not allowed. All land in the PRC is owned by the government and cannot be sold to any individual or entity. These facilities were developed on land which we lease from the PRC government.

In addition to the facilities listed above, we lease space in various international locations, primarily for use as sales offices.

Our lease for the Bangalore office expired on January 31, 2011. We are negotiating a renewal. In addition, our lease for the San Mateo office expires on June 30, 2011. We are currently investigating alternative facilities. We believe we will obtain lease agreements under similar terms, however there can be no assurance that we will receive similar terms or that any offer to renew will be accepted.

See ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA Notes to Consolidated Financial Statements Note 12 for additional information regarding our obligations under leases.

ITEM 3. LEGAL PROCEEDINGS

We are subject to lawsuits arising out of the conduct of our business. The discussion of our litigation matters in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA Notes to Consolidated Financial Statements Note 13 is incorporated by reference.

ITEM 4. RESERVED

PART II

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

Our common stock trades on the NASDAQ Global Select Market under the symbol UEIC. The closing price of our common stock as reported by NASDAQ on March 11, 2011 was $26.49. Our stockholders of record on March 11, 2011 numbered 131. We have never paid cash dividends on our common stock, nor do we currently intend to pay any cash dividends on our common stock in the foreseeable future. We intend to retain our earnings, if any, for the future operation and expansion of our business.

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Recent Sales of Unregistered Securities

As part of the consideration paid by UEI for the acquisition of Enson Assets Limited, 1,460,000 newly issued shares of UEI common stock, par value $.01 per share, were delivered to CG International Holdings Limited (CGI). The shares were issued in reliance upon an exemption from registration under the Securities Act, pursuant to Regulation S promulgated under the Securities Act. UEI and UEI Hong Kong Private Limited complied with the conditions of Rule 903 of Regulation S, including, but not limited to, the following: (i) CGI is not a U.S. person and was offered and sold its shares in accordance with the provisions of Regulation S; (ii) an appropriate legend is required to be affixed to the shares in accordance with Regulation S; (iii) CGI represented that it is not acquiring the shares for the account or benefit of a U.S. person; (iv) CGI agreed to resell the shares only in accordance with the provisions of Regulation S, pursuant to a registration statement under the Securities Act of 1933, as amended or pursuant to an available exemption from registration; and (v) CGI agreed not to engage in hedging activities involving UEI s common stock. In the Stock Purchase Agreement among CGI, UEI and UEI Hong Kong Private Limited, CGI acknowledged that UEI will implement the restrictions on transfer contained in the Purchase Agreement, which preclude any transfer of the shares which is not made in accordance Regulation S, not registered under the Securities Act, or not made pursuant another available exemption.

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

	2010		2009	
	High	**Low**	**High**	**Low**
First Quarter	$ 26.55	$ 20.25	$ 19.80	$ 10.85
Second Quarter	23.90	16.49	22.50	17.27
Third Quarter	20.93	16.12	22.12	16.99
Fourth Quarter	30.27	20.04	24.07	19.80

Purchases of Equity Securities

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

Period	Total Number of Shares Purchased	Weighted Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/1/2010 10/31/2010	5,785	$ 20.70		
11/1/2010 11/30/2010	99	27.32		
12/1/2010 12/31/2010	6,551	28.70		
Total during fourth quarter	12,435	$ 24.96		

During the year ended December 31, 2010, we repurchased 505,692 shares of our issued and outstanding common stock for $10.1 million under an ongoing and systematic program approved by our Board of Directors on February 11, 2010. We make stock repurchases to manage the dilution created by shares issued under our stock incentive plans or when we deem a repurchase is a good use of our cash and the price to be paid is at or below a threshold approved by our Board from time to time. On December 31, 2010, we had 526,874 shares available for repurchase under our current Board authorization.

Equity Compensation Plans

Information regarding our equity compensation plans, including both stockholder approved plans and plans not approved by stockholders, is incorporated by reference to ITEM 12. SECURITY OWNERSHIP OF CERTAIN

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BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS under the caption Equity Compensation Plan Information and ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA Notes to Consolidated Financial Statements Note 16 under the caption Stock-Based Compensation.

Performance Chart

The following graph and table compares the cumulative total stockholder return with respect to our common stock versus the cumulative total return of the Standard & Poor s Small Cap 600 (the S&P Small Cap 600) and the NASDAQ Composite Index for the five year period ended December 31, 2010. The comparison assumes that $100 is invested on December 31, 2005 in each of our common stock, S&P Small Cap 600 and the NASDAQ Composite Index and that all dividends are reinvested. We have not paid any dividends and, therefore, our cumulative total return calculation is based solely upon stock price appreciation and not upon reinvestment of dividends. The graph and table depicts year-end values based on actual market value increases and decreases relative to the initial investment of $100, based on information provided for each calendar year by the NASDAQ Stock Market and the New York Stock Exchange.

The comparisons in the graph and table below are based on historical data and are not intended to forecast the possible future performance of our common stock.

Comparison of Stockholder Returns of Universal Electronics Inc.,
the S&P Small Cap 600 and the NASDAQ Composite Index

	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010
Universal Electronics Inc.	$ 100	$ 122	$ 194	$ 94	$ 135	$ 165
S&P Small Cap 600	$ 100	$ 114	$ 113	$ 77	$ 95	$ 119
NASDAQ Composite Index	$ 100	$ 110	$ 120	$ 72	$ 103	$ 120

Information presented is as of the end of each calendar year for the period December 31, 2005 through 2010. This information shall not be deemed to be solicited material or to be filed with the Securities and Exchange Commission or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act) nor shall this information be incorporated by reference into any prior or future filings under the Securities Act of 1933 or the Exchange Act, except to the extent that we specifically incorporate it by reference into a filing.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The information below is not necessarily indicative of the results of future operations and should be read in conjunction with ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, and the Consolidated Financial Statements and notes thereto included in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA, of this Form 10-K, which are incorporated herein by reference, in order to understand further the factors that may affect the comparability of the financial data presented below.

	Year Ended December 31,				
(in thousands, except per share data)	2010	2009	2008	2007	2006
Net sales	$ 331,780	$ 317,550	$ 287,100	$ 272,680	$ 235,846
Operating income	$ 21,301	$ 21,947	$ 20,761	$ 26,451	$ 18,517
Net income	$ 15,081	$ 14,675	$ 15,806	$ 20,230	$ 13,520
Earnings per share:					
Basic	$ 1.10	$ 1.07	$ 1.13	$ 1.40	$ 0.98
Diluted	$ 1.07	$ 1.05	$ 1.09	$ 1.33	$ 0.94
Shares used in calculating earnings per share:					
Basic	13,764	13,667	14,015	14,410	13,818
Diluted	14,106	13,971	14,456	15,177	14,432
Cash dividend declared per common share					
Gross margin	31.3%	32.0%	33.5%	36.4%	36.4%
Selling, general, administrative, research and development expenses as a % of net sales	24.9%	25.1%	26.3%	26.7%	28.5%
Operating margin	6.4%	6.9%	7.2%	9.7%	7.9%
Net income as a % of net sales	4.6%	4.6%	5.5%	7.4%	5.7%
Return on average assets	5.0%	6.5%	7.3%	10.2%	8.3%
Working capital	$ 66,101	$ 127,086	$ 122,303	$ 140,330	$ 106,179
Ratio of current assets to current liabilities	1.4	3.1	3.0	4.0	3.4
Total assets	$ 372,533	$ 233,307	$ 217,555	$ 217,285	$ 178,608
Cash and cash equivalents	$ 54,249	$ 29,016	$ 75,238	$ 86,610	$ 66,075
Long-term debt					
Stockholders equity	$ 211,204	$ 169,730	$ 153,353	$ 168,242	$ 134,217
Book value per share [a]	$ 14.13	$ 12.40	$ 11.24	$ 11.55	$ 9.58
Ratio of liabilities to liabilities and stockholders equity	43.3%	27.3%	29.5%	22.6%	24.9%

[a] Book value per share is defined as stockholders equity divided by common shares issued less treasury stock.

The comparability of information between 2010 and prior years is affected by the acquisition of Enson Assets Limited during the fourth quarter of 2010. See ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS and ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA Notes to Consolidated Financial Statements Note 21 for further information.

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

The following discussion should be read in conjunction with the Consolidated Financial Statements and the related notes that appear elsewhere in this document.

Overview

We develop and manufacture a broad line of pre-programmed universal wireless control products, audio-video accessories, and software that are marketed to enhance home entertainment systems. Our customers operate in the consumer electronics market and include OEMs, subscription broadcasters, international retailers, custom installers, North American retailers, private labels, and companies in the computing industry. We also sell integrated circuits, on which our software and IR code database is embedded, to OEMs that manufacture wireless control devices, cable converters or satellite receivers for resale in their products. We believe that our universal remote control database contains device codes that are capable of controlling virtually all IR controlled TVs, DVD players, cable converters, CD players, audio components and satellite receivers, as well as most other infrared remote controlled devices worldwide.

Beginning in 1986 and continuing today, we have compiled an extensive IR code library that covers over 508,000 individual device functions and over 4,200 individual consumer electronic equipment brand names. Our library is regularly updated with new IR codes used in newly introduced video and audio devices. All such IR codes are captured from the original manufacturer s remote control devices or manufacturer s specifications to ensure the accuracy and integrity of the database. We have also developed patented technologies that provide the capability to easily upgrade the memory of the wireless control device by adding IR codes from the library that were not originally included.

We operate as one business segment. We have twenty-four subsidiaries located in Argentina, Cayman Islands, France, Germany (2), Hong Kong (6), India, Italy, the Netherlands, Singapore, Spain, Brazil, British Virgin Islands (3), People s Republic of China (3) and the United Kingdom.

To recap our results for 2010:

- Our net sales grew 4.5% from $317.6 million in 2009 to $331.8 million in 2010, due to the acquisition of Enson Assets Limited in November 2010, which added $25.0 million in revenue in 2010.

- Excluding the Enson Assets Limited transaction, our revenue decreased 3.4% from $317.6 million for 2009 to $306.8 million for 2010. This decrease is primarily due to the loss of sales from a significant customer who returned to a more traditional dual sourcing arrangement beginning during the first quarter of 2010. This significant customer purchased the majority of its remote controls from us during 2009. We were able to partially offset this loss by acquiring new domestic and international customers in our business category throughout 2010.

- Our 2010 operating income decreased 2.9% to $21.3 million from $21.9 million in 2009. Our operating margin percentage decreased from 6.9% in 2009 to 6.4% in 2010 due primarily to the decrease in our gross margin percentage from 32.0% in 2009 to 31.3% in 2010. The decrease in our gross margin rate was due primarily to sales mix, as a higher percentage of our total sales was comprised of our lower-margin Business category. In addition, the weakening of both the Euro and the British Pound versus the U.S. dollar also contributed to the decline in our gross margin percentage. Partially offsetting the decrease in our gross margin percentage was a 20 basis point improvement in operating expenses as a percentage of net sales in 2010 compared to 2009.

Our strategic business objectives for 2011 include the following:

- continue to integrate Enson Assets Limited;

decrease third party supplier purchases and increase Enson s utilization of its existing factories;

place more operations, logistics, quality, program management, engineering, sales, and marketing personnel in the Asia region;

further penetrate the growing Asian and Latin American subscription broadcasting markets;

increase our share with existing customers;

acquire new customers in historically strong regions;

continue our expansion into new regions, Latin America and Asia in particular; and

continue to develop industry-leading technologies and products.

We intend for the following discussion of our financial condition and results of operations to provide information that will assist in understanding our consolidated financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect our consolidated financial statements.

Critical Accounting Policies and Estimates

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

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

Revenue recognition

We recognize revenue on the sale of products when title of the goods has transferred, there is persuasive evidence of an arrangement (such as when a purchase order is received from the customer), the sales price is fixed or determinable and collectability is reasonably assured.

We record a provision for estimated retail sales returns. The provision recorded for estimated sales returns and allowances is deducted from gross sales to arrive at net sales in the period the related revenue is recorded. These estimates are based on historical sales returns, analysis of credit memo data and other known factors. Actual returns and claims in any future period are inherently uncertain and thus may differ from our estimates. If actual or expected future returns and claims are significantly greater or lower than the reserves that we have established, we will record a reduction or increase to net revenues in the period in which we make such a determination. The allowance for sales returns balance at December 31, 2010 and 2009 was $1.4 million and $2.0 million, respectively.

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

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make payments for products sold or services rendered. The allowance for doubtful accounts is estimated based on a variety of factors, including credit reviews, historical experience, length of time receivables are past due, current economic trends and changes in customer payment behavior. Our historical reserves have been sufficient to cover losses from uncollectible accounts. However, because we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates and may have a material effect on our consolidated financial position, results of operations and cash flows. If the financial condition of our customers deteriorate resulting in their inability to make payments, a larger allowance may be required resulting in a charge to selling, general, and administrative expense in the period in which we make this determination. We incurred $0.9 million of bad debt expense in 2010 to reflect certain customer accounts where collection was highly uncertain in the current economic environment.

We have not made any material changes in our methodology for recognizing revenue during the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to recognize revenue. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that may be material.

Warranty

We warrant our products against defects in materials and workmanship arising during normal use. We service warranty claims directly through our customer service department or contracted third-party warranty repair facilities. Our warranty periods range up to three years. We estimate and recognize product warranty costs, which are included in cost of sales, as we sell the related products. Warranty costs are forecasted based on the best available information, primarily historical claims experience and the expected cost per claim. The costs we have incurred to service warranty claims have been minimal. Historically, product defects have been less than 0.5% of the net units sold. As a result the balance of our reserve for estimated warranty costs is not significant.

We have not made any material changes in our warranty reserve methodology during the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate the warranty reserve. However, actual claim costs may differ from the amounts estimated. If a significant product defect were to be discovered on a high volume product, our financial statements may be materially impacted.

Inventories

Our inventories consist primarily of wireless control devices, component parts, and raw materials, and are valued at the lower of cost or market value. The approximate cost is determined using the first-in, first-out basis. We write-down our inventory for the estimated difference between the inventory s approximate cost and its estimated market value based upon our best estimates of market conditions.

We carry inventory in amounts necessary to satisfy our customers inventory requirements on a timely basis. We continually monitor our inventory status to control inventory levels and write-down any excess or obsolete inventories on hand. Our total excess and obsolete inventory reserve on December 31, 2010 and 2009 was $2.1 million and $1.8 million, respectively, or 3.2% and 4.1% of total inventory. The increase in our excess and obsolete reserve during 2010 was the result of $2.9 million of additional write-downs offset by $1.0 million of sell-through, $1.5 million of scrapping and foreign currency translation effects. This compared to additional write-downs of $3.3 million offset by $0.9 million of sell-through and $2.3 million of scrapping and foreign currency translation effects during 2009.

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We have not made any material changes in the accounting methodology used to establish our excess and obsolete inventory reserve during the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our excess and obsolete inventory reserve. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required which may have a material impact on our financial statements. Such circumstances may include, but are not limited to, the development of new competing technology that impedes the marketability of our products or the occurrence of significant price decreases in our raw material or component parts, such as integrated circuits. Each percentage point change in the ratio of excess and obsolete inventory reserve to inventory would impact cost of sales by approximately $0.7 million.

Business Combinations

We are required to allocate the purchase price of acquired companies to the tangible and intangible assets and the liabilities assumed, as well as in-process research and development (IPR&D), based upon their estimated fair values. We engage independent third-party appraisal firms to assist us in determining the fair values of assets acquired and liabilities assumed. Such valuations require management to make significant fair value estimates and assumptions, especially with respect to intangible assets. Management estimates the fair value of certain intangible assets by utilizing the following (but not limited to):

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

Our estimates are based upon assumptions believed to be reasonable; however, unanticipated events or circumstances may occur which may affect the accuracy of our fair value estimates, including assumptions regarding industry economic factors and business strategies.

Valuation of Long-Lived Assets and Intangible Assets

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

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

If the carrying value of the asset is larger than its undiscounted cash flows, the asset is impaired. We measure an impairment based on the projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. In assessing the recoverability, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets.

We have not made any material changes in our impairment loss assessment methodology during the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate the impairment of long-lived assets and intangible assets. However, if actual results are not consistent with our estimates and assumptions we may be exposed to material impairment charges.

Capitalized Software Development Costs

At each balance sheet date, we compare the unamortized capitalized software development costs to the net realizable value of the related product. The amount by which the unamortized capitalized software development costs exceed the net realizable value of the related product is written off. The net realizable value is the estimated future gross revenues attributable to each product reduced by its estimated future completion and disposal costs. Any remaining amount of capitalized software development costs that have been written down are considered to be the cost for subsequent accounting purposes, and the amount of the write-down is not subsequently restored.

We do not believe there is a reasonable likelihood that there will be a material change in the future estimates of net realizable value we use to test for impairment losses on capitalized software development costs. However, if actual results are not consistent with our estimates and assumptions we may be exposed to impairment charges.

Goodwill

We evaluate the carrying value of goodwill on December 31 of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances may include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition or (3) an adverse action or assessment by a regulator. When performing the impairment review, we determine the carrying amount of each reporting unit by assigning assets and liabilities, including the existing goodwill, to those reporting units. A reporting unit is defined as an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is deemed a reporting unit if the component constitutes a business for which discrete financial information is available, and segment management regularly reviews the operating results of that component. We have a single reporting unit. On December 31, 2010, we had goodwill of $30.4 million.

To evaluate whether goodwill is impaired, we compare the estimated fair value of the reporting unit to which the goodwill is assigned to the reporting unit s carrying amount, including goodwill. We estimate the fair value of our reporting unit based on income and market approaches. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Under the market approach, we estimate the fair value based on market multiples of Enterprise Value to EBITDA for comparable companies. If the carrying amount of a reporting unit exceeds its fair value, the amount of the impairment loss must be measured.

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

Determining the fair value of a reporting unit or an indefinite-lived purchased intangible asset is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and the determination of appropriate market comparables. In addition, we make certain judgments and assumptions in determining our reporting units. We base our fair value estimates on

assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.
We have not made any material changes in our impairment loss assessment methodology during the past three fiscal years. We continue to estimate the fair value of our reporting unit to be in excess of its carrying value, and therefore have not recorded any impairment. The amount by which the fair value of our reporting unit exceeded its book value utilizing the income and market approaches ranged from 46 percent to 66 percent and therefore we concluded our goodwill was not impaired at December 31, 2010. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to test for impairment losses on goodwill. However, if actual results are not consistent with our estimates and assumptions we may be exposed to material impairment charges.
Income Taxes
We calculate our current and deferred tax provisions based on estimates and assumptions that may differ from the actual results reflected in our income tax returns filed during the subsequent year. We record adjustments based on filed returns when we have identified and finalized them, which is generally in the third and fourth quarters of the subsequent year for U.S. federal and state provisions, respectively.
We recognize deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts using enacted tax rates in effect for the year in which we expect the differences to reverse. We record a valuation allowance to reduce the deferred tax assets to the amount that we are more likely than not to realize. We have considered future market growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate and prudent tax planning strategies in determining the need for a valuation allowance. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, we would increase the valuation allowance and make a corresponding charge to earnings in the period in which we make such determination. Likewise, if we later determine that we are more likely than not to realize the net deferred tax assets, we would reverse the applicable portion of the previously provided valuation allowance. In order for us to realize our deferred tax assets we must be able to generate sufficient taxable income in the tax jurisdictions in which the deferred tax assets are located.
Our effective tax rate includes the impact of certain undistributed foreign earnings for which we have not provided U.S. taxes because we plan to reinvest such earnings indefinitely outside the United States. The decision to reinvest our foreign earnings indefinitely outside the United States is based on our projected cash flow needs as well as the working capital and long-term investment requirements of our foreign subsidiaries and our domestic operations. Material changes in our estimates of cash, working capital and long-term investment requirements in the various jurisdictions in which we do business may impact our effective tax rate.
We are subject to income taxes in the United States and foreign countries, and we are subject to routine corporate income tax audits in many of these jurisdictions. We believe that our tax return positions are fully supported, but tax authorities are likely to challenge certain positions, which may not be fully sustained. However, our income tax expense includes amounts intended to satisfy income tax assessments that result from these challenges in accordance with the accounting for uncertainty in income taxes prescribed by U.S. GAAP. Determining the income tax expense for these potential assessments and recording the related assets and liabilities requires management judgments and estimates.
We have recorded a liability for uncertain tax positions of $5.6 million at December 31, 2010. We believe that our reserve for uncertain tax positions, including related interest and penalties, is adequate. Our reserve for uncertain tax positions is primarily attributable to uncertainties concerning the tax treatment of our international operations, including the allocation of income among different jurisdictions, and any related interest. We review our reserves quarterly, and we may adjust such reserves due to proposed assessments by tax authorities, changes in facts and circumstances, issuance of new regulations or new case law, previously unavailable information obtained during the course of an examination, negotiations between tax authorities of different countries concerning our transfer prices, execution of advanced pricing agreements, resolution with respect to individual audit issues, the resolution of entire

audits, or the expiration of statutes of limitations. The amounts ultimately paid upon resolution of audits may be materially different from the amounts previously included in our income tax expense and, therefore, may have a material impact on our operating results, financial position and cash flows.

Stock-Based Compensation Expense

Stock-based compensation expense for each employee and director is presented in the same income statement caption as their cash compensation. Stock-based compensation expense by income statement caption for the years ended December 31, 2010, 2009 and 2008 is the following:

(in thousands)	**2010**	**2009**	**2008**
Cost of sales	$ 55	$ 33	$ 17
Research and development	452	434	356
Selling, general and administrative	4,459	3,845	3,870
Total stock-based compensation expense	$ 4,966	$ 4,312	$ 4,243

Selling, general and administrative expense includes pre-tax stock-based compensation related to restricted stock awards granted to outside directors of $0.6 million, $0.5 million and $0.6 million for the years ended December 31, 2010, 2009 and 2008, respectively. We issue restricted stock awards to the outside directors for services performed. Compensation expense for these restricted stock awards is recognized on a straight-line basis over the requisite service period of one year.

Selling, general and administrative expense includes pre-tax stock-based compensation related to stock option awards granted to outside directors of $0.3 million, $0.3 million and $0.2 million for the years ended December 31, 2010, 2009 and 2008, respectively. We issue stock option awards to the outside directors for services performed. Compensation expense for these stock option awards is recognized on a straight-line basis over the requisite service period of three years.

Stock Option Grants

During the year ended December 31, 2010, the Compensation Committee and Board of Directors granted 119,900 stock options to our employees with an aggregate grant date fair value of $1.3 million under various stock incentive plans. The stock options granted to employees during 2010 consisted of the following:

(in thousands, except share amounts)

Stock Option Grant Date	**Number of Shares Underlying Options**	**Grant Date Fair Value**	**Vesting Period**
January 25, 2010	99,900	$ 1,134	4 -Year Vesting Period (0% each quarter during year 1 and 8.33% each quarter during years 2-4)
July 14, 2010	20,000	164	4 -Year Vesting Period (25% each year)
	119,900	$ 1,298	

During the year ended December 31, 2010, we recognized $0.3 million of pre-tax stock-based compensation expense related to our 2010 stock option grants.

At December 31, 2010, there was $2.2 million of unrecognized pre-tax stock-based compensation expense related to non-vested stock options which we expect to recognize over a weighted-average period of 2.3 years.

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Restricted Stock Grants

During the year ended December 31, 2010, the Compensation Committee and Board of Directors granted 45,500 restricted stock awards under the 2006 Stock Incentive Plan to our employees with an aggregate grant date fair value of $1.1 million. The restricted stock awards granted to employees during 2010 consisted of the following:

(in thousands, except share amounts)

Restricted Stock Grant Date	Number of Shares Granted	Grant Date Fair Value	Vesting Period
January 25, 2010	45,500	$ 1,133	4 -Year Vesting Period (0% each quarter during year 1 and 8.33% each quarter during years 2-4)

In addition to the grants to employees, 30,000 shares of restricted stock with a grant date fair value of $0.5 million were granted to our outside directors on July 1, 2010 as a part of their annual compensation package. These shares are subject to a one-year vesting period (25% each quarter).

During the year ended December 31, 2010, we recognized $0.5 million of pre-tax stock-based compensation expense related to our 2010 restricted stock grants.

At December 31, 2010, there was $2.9 million of unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards which we expect to recognize over a weighted-average period of 1.7 years.

Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the utilization of highly subjective assumptions, including the expected life and forfeiture rate of the share-based payment awards and stock price volatility. Management determined that historical volatility calculated based on our actively traded common stock is a better indicator of expected volatility and future stock price trends than implied volatility. The assumptions used in calculating the fair value of share-based payment awards represent management s best estimates, but these estimates involve inherent uncertainties and the application of management s judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense may be materially different in the future.

We do not believe it is reasonably likely that there will be a material change in the future estimates or assumptions used to determine stock-based compensation expense. However, if actual results are not consistent with our estimates and assumptions we may be exposed to material stock-based compensation expense. Refer to ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA Notes to Consolidated Financial Statements Note 16 for additional disclosure regarding stock-based compensation expense.

Results of Operations

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

	Year Ended December 31,					
(in thousands)	2010		2009		2008	
Net sales	$ 331,780	100.0%	$ 317,550	100.0%	$ 287,100	100.0%
Cost of sales	227,931	68.7	215,938	68.0	190,910	66.5
Gross profit	103,849	31.3	101,612	32.0	96,190	33.5
Research and development expenses	10,709	3.2	8,691	2.7	8,160	2.8
Selling, general and administrative expenses	71,839	21.7	70,974	22.4	67,269	23.5
Operating income	21,301	6.4	21,947	6.9	20,761	7.2
Interest income, net	34	0.0	471	0.1	3,017	1.1
Other income (expense), net	523	0.2	(241)	(0.0)	311	0.1
Income before income taxes	21,858	6.6	22,177	7.0	24,089	8.4
Provision for income taxes	6,777	2.0	7,502	2.4	8,283	2.9
Net income	$ 15,081	4.6%	$ 14,675	4.6%	$ 15,806	5.5%

The comparability of information between 2010 and prior years is affected by the acquisition of Enson Assets Limited during the fourth quarter of 2010. See ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS and ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA Notes to Consolidated Financial Statements Note 21 for further information.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Consolidated

Net sales for the year ended December 31, 2010 were $331.8 million, an increase of 4% compared to $317.6 million for the same period last year. Net income for 2010 was $15.1 million or $1.07 per diluted share compared to $14.7 million or $1.05 per diluted share for 2009.

	2010		2009	
	$ (millions)	% of total	$ (millions)	% of total
Net sales:				
Business	$ 282.9	85.3%	$ 262.5	82.7%
Consumer	48.9	14.7%	55.1	17.3%
Total net sales	$ 331.8	100.0%	$ 317.6	100.0%

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were approximately 85% of net sales for 2010 compared to approximately 83% for 2009. Net sales in our business lines for 2010 increased by approximately 8% to $282.9 million from $262.5 million in 2009. This increase in net sales resulted primarily from the November 2010 acquisition of Enson Assets Limited, which added several significant customers and contributed $25.0 million in sales in 2010. Excluding the net sales which resulted from the acquisition of Enson, the business category decreased by $4.6 million. This was the result of a significant customer returning to a more traditional dual source arrangement during the first quarter of 2010 after purchasing the majority of its remotes from us during 2009.

We were able to partially offset this loss by acquiring new customers both domestically and internationally.

Net sales in our Consumer lines (*One For All*® retail, private label, custom installers, and direct import) were approximately 15% of net sales for 2010 compared to approximately 17% for 2009. Net sales in our Consumer lines for 2010 decreased by 11% to $48.9 million from $55.1 million in 2009. Net sales in North American retail decreased by $4.0 million, or 46%, from $8.8 million in 2009 to $4.8 million in 2010. In addition, our custom installer sales decreased by $3.3 million, from $6.2 million in 2009 to $2.9 million in 2010. Partially offsetting these decreases was a $1.1 million increase in international retail sales, from $40.1 million in 2009 to $41.2 million in 2010. The 2010 net sales in our Consumer lines were negatively impacted by the weakening of the Euro and the British Pound compared to the U.S. dollar, which resulted in a decrease in net sales of approximately $1.4 million. Net of the unfavorable currency effect, international retail sales increased by $2.5 million due primarily to the analog to digital transition that took place in some European countries.

Gross profit for 2010 was $103.8 million compared to $101.6 million for 2009. Gross profit as a percent of sales decreased to 31.3% in 2010 from 32.0% in 2009, due primarily to the following:

A fair value adjustment made to inventory and fixed assets acquired in the Enson Assets Limited acquisition resulted in a decrease of 0.5% in the gross margin rate;

An increase in freight expense caused a decrease of 0.4% in the gross margin rate;

Sales mix, as a higher percentage of our total sales was comprised of our lower margin Business category, resulted in a decrease of 0.3% in the gross margin rate;

Foreign currency fluctuations caused a decrease of 0.2% in the gross margin rate, driven by the weakening of the Euro and British Pound as compared to the U.S. dollar;

A decrease in inventory scrap expense, resulting from a lower return rate, improved the gross margin rate by 0.4%; and

A decrease in sub-contract labor, resulting primarily from less rework, caused an increase of 0.3% in the gross margin.

Research and development expenses increased 23% from $8.7 million in 2009 to $10.7 million in 2010. The increase is primarily due to additional labor dedicated to general research & development activities in an effort to continue to develop new technologies and products.

Selling, general and administrative expenses increased 1% from $71.0 million in 2009 to $71.8 million in 2010. The weakening of the Euro compared to the U.S. dollar resulted in a decrease of $1.3 million; net of the currency effect, selling, general and administrative expenses increased by $2.1 million. This increase was driven primarily by an increase in employee bonus expense of $1.5 million. Additionally, travel expense increased $0.5 million; advertising expense increased by $0.4 million; and bad debt expense increased $0.4 million. Partially offsetting these increases was a decline in commission expense of $0.8 million, resulting from certain sales personnel not meeting or exceeding their sales targets during 2010.

In 2010, we recorded $34 thousand of net interest income compared to $0.5 million for 2009. The decrease in interest income is due to significantly lower interest rates.

We recorded income tax expense of $6.8 million in 2010 compared to $7.5 million in 2009. Our effective tax rate was 31.0% in 2010 compared to 33.8% in 2009. The decrease in our effective tax rate was due primarily to a higher percentage of income earned in lower tax rate jurisdictions, the statute of limitations expiring during 2010 on certain tax positions recorded in the United States, and lower interest expense resulting from fewer uncertain tax positions.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Consolidated

Net sales for the year ended December 31, 2009 were $317.6 million, an increase of 11% compared to $287.1 million for the same period last year. Net income for 2009 was $14.7 million or $1.05 per diluted share compared to $15.8 million or $1.09 per diluted share for 2008.

	2009		2008	
	$ (millions)	% of total	$ (millions)	% of total
Net sales:				
Business	$ 262.5	82.7%	$ 231.5	80.6%
Consumer	55.1	17.3%	55.6	19.4%
Total net sales	$ 317.6	100.0%	$ 287.1	100.0%

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were approximately 83% of net sales for 2009 compared to approximately 81% for 2008. Net sales in our business lines for 2009 increased by approximately 13% to $262.5 million from $231.5 million in 2008. This increase in net sales resulted primarily from an increase in the volume of remote control sales, which was partially offset by lower prices. The increase in remote control sales volume was attributable to the continued deployment of advanced function set-top boxes by the service operators, market share gains with a few key subscription broadcasting customers and new customer wins. These advanced functions include digital video recording (DVR), video-on-demand (VOD), and high definition television (HDTV). We expect that the deployment of the advanced function set-top boxes by the service operators will continue into the foreseeable future as penetration for each of the functions cited continues to increase.

Net sales in our Consumer lines (*One For All*® retail, private label, custom installers, and direct import) were approximately 17% of net sales for 2009 compared to approximately 19% for 2008. Net sales in our consumer lines for 2009 decreased by 1% to $55.1 million from $55.6 million in 2008. The 2009 net sales were negatively impacted by the weakening of the Euro and the British Pound compared to the U.S. dollar, which resulted in a decrease in net sales of approximately $3.6 million. Net of the currency effect, net retail sales outside of the United States were down by an additional $0.9 million. Net private label sales in the United States decreased by $1.4 million, or 70%, to $0.6 million in 2009 from $2.0 million in 2008. In addition, net sales in the CEDIA market decreased by $0.8 million, or 11%, from $7.0 million in 2008 to $6.2 million in 2009. Partially offsetting these decreases was North American retail, which increased net sales by $6.2 million, from $2.0 million in 2008 to $8.2 million in 2009. The increase in North American retail was the result of our distribution agreement with Audiovox, which was signed during the second quarter of 2008.

Gross profit for 2009 was $101.6 million compared to $96.2 million for 2008. Gross profit as a percent of sales decreased to 32.0% in 2009 from 33.5% in 2008, due primarily to the following:

- Sales mix, as a higher percentage of our total sales was comprised of our lower margin Business category. In addition, sales mix within our sales categories also contributed to the decrease in our gross margin rate as consumers trended towards value-oriented products. Collectively, the aforementioned resulted in a decrease of 0.7% in the gross margin rate;

- Foreign currency fluctuations caused a decrease of 0.7% in the gross margin rate driven by the weakening of the Euro and British Pound as compared to the U.S. dollar;

- An increase in inventory scrap expense caused a decrease of 0.2% in the gross margin rate.

Included within the sales mix calculation was the positive benefit of our relationship with Maxim Integrated Products which resulted in an increase in our gross margin percentage of approximately 1.0%. During 2009 we agreed to be Maxim s sales agent in return for a sales agency fee. The sales agency fee during 2009 was $4.4

37

million. During 2010, as the transition from the Zilog chip platform to the Maxim chip platform progresses, we will begin to take over full sales and distribution rights, procuring and selling the chips directly to Zilog s former customers. We anticipate this relationship will lead to growth in revenue and earnings going forward.

Research and development expenses increased 7% from $8.2 million in 2008 to $8.7 million in 2009. The increase is primarily due to additional labor dedicated to general research & development activities.

Selling, general and administrative expenses increased 6% from $67.3 million in 2008 to $71.0 million in 2009. The weakening of the Euro compared to the U.S. dollar resulted in a decrease of $1.6 million; net of the currency effect, selling, general and administrative expenses increased by $5.3 million. Legal, accounting, and advisory professional service expense increased by $1.1 million, due to the acquisition of assets from Zilog, which was completed during the first quarter of 2009. The newly-acquired Zilog operations increased operating expenses by an additional $3.8 million. In addition, severance costs of approximately $0.9 million were incurred in 2009. During the fourth quarter of 2009, we also settled a copyright infringement lawsuit which increased operating expenses by approximately $0.6 million. Partially offsetting these increases was a decline in advertising and tradeshow expense which decreased by $1.1 million.

In 2009, we recorded $0.5 million of net interest income compared to $3.0 million for 2008. The decrease in interest income is due to significantly lower interest rates.

We recorded income tax expense of $7.5 million in 2009 compared to $8.3 million in 2008. Our effective tax rate was 33.8% in 2009 compared to 34.4% in 2008. The decrease in our effective tax rate was due primarily to the completion of our Dutch tax audit for 2002 through 2006 which resulted in approximately $0.4 million of tax reserves being reversed and credited into income in the fourth quarter of 2009, offset partially by a higher percentage of income earned in higher tax rate jurisdictions in 2009 compared to 2008.

Liquidity and Capital Resources

Sources and Uses of Cash

(In thousands)	Year Ended December 31, 2010	Increase (Decrease)	Year Ended December 31, 2009	Increase (Decrease)	Year Ended December 31, 2008
Cash provided by operating activities	$ 37,649	$ 13,662	$ 23,987	$ (6,165)	$ 30,152
Cash used for investing activities	(34,705)	31,386	(66,091)	(58,671)	(7,420)
Cash provided by (used for) financing activities	23,275	27,497	(4,222)	20,965	(25,187)
Effect of exchange rate changes on cash	(986)	(1,090)	104	9,021	(8,917)

	December 31, 2010	Increase (Decrease)	December 31, 2009
Cash and cash equivalents	$ 54,249	$ 25,233	$ 29,016
Working capital	66,101	(60,985)	127,086

Net cash provided by operating activities in 2010 was $37.6 million compared to $24.0 million during 2009. The improvement in cash flow from operations from 2009 to 2010 is due primarily to the strong collection of receivables that were acquired in the acquisition of Enson Assets Limited. We acquired approximately $37.6 million of receivables from Enson Assets Limited on November 4, 2010; however, Enson s receivable balance as of December 31, 2010 was approximately $26.0 million, reflecting cash inflows of approximately $11.6 million for the aforementioned two month period. Inventories increased from December 31, 2009 to December 31, 2010 as a result of anticipated increased demand in 2011. In addition, our fourth quarter 2010 net sales were towards the lower end of our expectations resulting in higher than expected inventories on December 31, 2010.

Net cash provided by operating activities in 2009 was $24.0 million compared to $30.2 million during 2008. The decrease in cash flows from operating activities in 2009 compared to 2008 was primarily due to our deliberate effort to improve our vendor management which commenced during 2008 and resulted in a $15.6 million cash inflow by the end of 2008. As a result of the improved vendor terms being negotiated and implemented in 2008, there was minimal opportunity for improvement relating to accounts payable in 2009. Days in payables actually decreased

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from 81 days at December 31, 2008 to 67 days at December 31, 2009 resulting in a cash outflow of approximately $2.1 million in 2009. In addition, during 2009 we had cash outflows related to accounts receivable of $4.2 million compared to cash outflows of $1.5 million during 2008 due primarily to higher net sales over the prior two years. Partially offsetting the aforementioned activity was an improvement in inventory turns from 4.4 turns in 2008 to 5.3 turns in 2009. Despite having higher sales, our inventory levels decreased from $43.7 million at December 31, 2008 to $40.9 million at December 31, 2009 compared to an inventory build of $8.8 million from December 31, 2007 to December 31, 2008.

Net cash used for investing activities during 2010 was $34.7 million as compared to $66.1 million and $7.4 million of net cash used during 2009 and 2008, respectively. The decrease in cash used for investing activities during 2010 compared to 2009 was primarily due to our $49.2 million time deposit investment maturing during 2010 which was initially entered into during 2009. The cash proceeds from the time deposit were used to purchase Enson Assets Limited during 2010, which amounted to a $74.1 million cash outflow net of cash acquired. In addition, we acquired intangible assets and goodwill of $9.5 million from Zilog Inc. during 2009. There were no acquisitions during 2008, only typical annual investments in property, plant, and equipment as well as internally developed patents. Please refer to ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA Notes to Consolidated Financial Statements Notes 7 and 21 for additional disclosure regarding our acquisition of Enson Assets Limited and purchase of goodwill and intangible assets from Zilog Inc.

Net cash provided by financing activities was $23.3 million during 2010 compared to cash used for financing activities of $4.2 million and $25.2 million during 2009 and 2008, respectively. During 2010 we had proceeds from debt issuance of $41.0 million to fund our acquisition of Enson Assets Limited. During 2010 we made debt payments totaling $9.8 million. Proceeds from stock option exercises were $2.0 million during 2010 compared to proceeds of $3.3 million and $1.2 million during 2009 and 2008, respectively. In addition, we purchased 505,692 shares of our common stock at a cost of $10.1 million during 2010, compared to 404,643 and 1,118,318 shares at a cost of $7.7 million and $26.7 million during 2009 and 2008, respectively. We hold these shares as treasury stock and they are available for reissue. Presently, except for using a minimal number of these treasury shares to compensate our outside board members, we have no plans to distribute these shares, although we may change these plans if necessary to fulfill our on-going business objectives.

On February 11, 2010, our Board of Directors authorized management to continue repurchasing up to an additional 1,000,000 shares of our issued and outstanding common stock. Repurchases may be made to manage dilution created by shares issued under our stock incentive plans or whenever we deem a repurchase is a good use of our cash and the price to be paid is at or below a threshold approved by our Board. As of December 31, 2010, we have repurchased 473,126 shares of our common stock under this authorization, leaving 526,874 shares available for repurchase.

Contractual Obligations

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

		Payments Due by Period			
(in thousands)	**Total**	**Less than 1 year**	**1 - 3 Years**	**4 - 5 years**	**After 5 years**
Contractual obligations:					
Operating lease obligations	$ 3,509	$ 1,883	$ 1,566	$ 60	$
Purchase obligations[1]	762	762			
Total contractual obligations	$ 4,271	$ 2,645	$ 1,566	$ 60	$

(1) Purchase obligations primarily include contractual payments to purchase tooling assets.

Liquidity

Historically, we have utilized cash provided from operations as our primary source of liquidity, as internally generated cash flows have been sufficient to support our business operations, capital expenditures and discretionary share repurchases. We believe our current cash balances and anticipated cash flow generated from operations are sufficient to cover cash outlays expected during 2011.

We are able to supplement this near-term liquidity, if necessary, with credit line facilities made available by various foreign and domestic financial institutions. Our liquidity is subject to various risks including the market risks identified in the section entitled Qualitative and Quantitative Disclosures about Market Risk in Item 7A.

	On December 31,		
	2010	**2009**	**2008**
Cash and cash equivalents	$ 54,249	$ 29,016	$ 75,238
Term deposit		49,246	
Total debt	35,000		
Available borrowing resources	33,766	15,000	15,000

On December 31, 2010, we had an outstanding balance of $35.0 million related to our U.S. Bank 1-year term loan facility. Our term loan, along with our line of credit and available cash, was utilized to finance the acquisition of Enson Assets Limited and to pay related transaction costs, fees, and expenses. Amounts paid or prepaid on the term loan may not be re-borrowed. The minimum principal payments for the term loan are $2.2 million each quarter. The first principal and interest payment was made on January 5, 2011. The remaining principal and interest payments are due on April 5, July 5, and October 5 of 2011. In addition, a final payment equal to the unpaid principal balance plus accrued interest is due on the term loan maturity date. The term loan maturity date is November 1, 2011. During 2011, we anticipate paying the principal balance down to zero prior to the term loan maturity date.

Our debt covenants require that the percentage of our funded debt to EBITDA remain below 100%. On December 31, 2010, we were in breach of this covenant. This breach resulted from the timing of the Enson Assets Limited acquisition. On December 31, 2010, we carried a note payable of $35.0 million utilized to partially fund the acquisition; however our results of operations for the twelve months ended December 31, 2010, included less than two months of Enson Assets Limited EBITDA resulting in the breach. The acceleration of our $35.0 million obligation has been waived by U.S. Bank for the calculation performed on December 31, 2010. We do not anticipate that we will remain in breach of this covenant since going forward we will be able to include the full period of Enson Asset Limited s EBITDA within the calculation. We were not in breach of any other debt covenants on December 31, 2010.

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, 2010, we had $66.1 million of working capital compared to $127.1 million at December 31, 2009. The decrease in working capital was driven primarily by the Enson Asset Limited acquisition which resulted in cash consideration of $95.0 million, offset partially by net working capital acquired.

Our cash balances are held in numerous locations throughout the world, including substantial amounts held outside of the United States. The majority of our cash is held outside of the United States and may be repatriated to the United States but, under current law, would be subject to United States federal income taxes, less applicable foreign tax credits. Repatriation of some foreign balances is restricted by local laws. We have not provided for the United States federal tax liability on these amounts for financial statement purposes as this cash is considered indefinitely reinvested outside of the United States. Our intent is to meet our domestic liquidity needs through ongoing cash flows, external borrowings, or both. We utilize a variety of tax planning strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed.

On December 31, 2010, we had approximately $6.5 million, $15.0 million, $27.8 million, $4.0 million, and $0.9 million of cash and cash equivalents in the United States, Europe, Asia, Cayman Islands and Brazil, respectively. We attempt to mitigate our exposure to liquidity, credit and other relevant risks by placing our cash, cash equivalents, and term deposit with financial institutions we believe are high quality.

For further information regarding our credit facilities, see ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

It is our policy to carefully monitor the state of our business, cash requirements and capital structure. We believe that the cash generated from our operations and funds from our credit facilities will be sufficient to support our

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current business operations as well as anticipated growth at least through the end of 2011; however, there can be no assurance that such funds will be adequate for that purpose.

Off Balance Sheet Arrangements

We do not participate in any off balance sheet arrangements.

New Accounting Pronouncements

See ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA Notes to Consolidated Financial Statements Note 2 for a discussion of new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including interest rate and foreign currency exchange rate fluctuations. We have established policies, procedures and internal processes governing our management of these risks and the use of financial instruments to mitigate our risk exposure.

Interest Rate Risk

We are exposed to interest rate risk related to our debt. We may withdraw either U.S. dollars or foreign currencies from our credit facilities. Our market risk exposures in connection with the debt are primarily U.S. dollar LIBOR-based floating interest. On December 31, 2010, we had an outstanding balance of $35.0 million related to our U.S. Bank 1-year term loan facility. The term loan maturity date is November 1, 2011. Under the U.S. Bank secured revolving credit line, we may elect to pay interest based on the bank s prime rate or LIBOR plus a fixed margin of 1.8%. The applicable LIBOR (1, 3, 6, or 12-month LIBOR) corresponds with the loan period we select. At December 31, 2010, the 12-month LIBOR plus the fixed margin was 2.6% and the bank s prime rate was 3.25%. If a LIBOR rate loan is prepaid prior to the completion of the loan period, we must pay the bank the difference between the interest the bank would have earned had prepayment not occurred and the interest the bank actually earned. We may prepay prime rate loans in whole or in part at any time without a premium or penalty.

We cannot make any assurances that we will not need to borrow additional amounts in the future or that funds will be extended to us under comparable terms or at all. If funding is not available to us at a time when we need to borrow, we would have to use our cash reserves, including potentially repatriating cash from foreign jurisdictions, which may have a material adverse effect on our operating results, financial position and cash flows.

Foreign Currency Exchange Rate Risk

At December 31, 2010 we had wholly owned subsidiaries in the People s Republic of China, Argentina, Brazil, Cayman Islands, France, Germany, Hong Kong, India, Italy, the Netherlands, Singapore, Spain, and the United Kingdom. We are exposed to foreign currency exchange rate risk inherent in our sales commitments, anticipated sales, anticipated purchases, assets and liabilities denominated in currencies other than the U.S. dollar. The most significant foreign currencies to our operations for fiscal 2010 were the Euro, British Pound and Chinese Yuan Renminbi. For most currencies, we are a net receiver of the foreign currency and therefore benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the foreign currency. Even where we are a net receiver, a weaker U.S. dollar may adversely affect certain expense figures taken alone.

From time to time, we enter into foreign currency exchange agreements to manage the foreign currency exchange rate risks inherent in our forecasted income and cash flows denominated in foreign currencies. The terms of these foreign currency exchange agreements normally last less than nine months. We recognize the gains and losses on these foreign currency contracts in the same period as the remeasurement losses and gains of the related foreign currency-denominated exposures.

It is difficult to estimate the impact of fluctuations on reported income, as it depends on the opening and closing rates, the average net balance sheet positions held in a foreign currency and the amount of income generated in local currency. We routinely forecast what these balance sheet positions and income generated in local currency may be and we take steps to minimize exposure as we deem appropriate. Alternatively, we may choose not to hedge the foreign currency risk associated with our foreign currency exposures, primarily if such exposure acts as a natural foreign currency hedge for other offsetting amounts denominated in the same currency or the currency is difficult or too expensive to hedge. We do not enter into any derivative transactions for speculative purposes.

The sensitivity of earnings and cash flows to the variability in exchange rates is assessed by applying an approximate range of potential rate fluctuations to our assets, obligations and projected results of operations denominated in foreign currency with all other variables held constant. The analysis covers all of our foreign currency contracts offset by the underlying exposures. Based on our overall foreign currency rate exposure at December 31, 2010, we believe that movements in foreign currency rates may have a material affect on our financial position. We estimate that if the exchange rates for the Euro, British Pound, Chinese Yuan Renminbi, Indian Rupee, and Singapore dollar relative to the U.S. dollar fluctuate 10% from December 31, 2010, net income and total cash flows in the first quarter of 2011 would fluctuate by approximately $2.4 million and $5.0 million, respectively.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Universal Electronics Inc.

We have audited the accompanying consolidated balance sheets of Universal Electronics Inc. (a Delaware corporation) as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Universal Electronics Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Universal Electronics Inc. s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2011 expressed an unqualified opinion.

/s/ Grant Thornton LLP
Irvine, California
March 16, 2011

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

	December 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 54,249	$ 29,016
Term deposit		49,246
Accounts receivable, net	86,304	64,392
Inventories, net	65,402	40,947
Prepaid expenses and other current assets	2,582	2,423
Deferred income taxes	6,256	3,016
Total current assets	214,793	189,040
Property, plant, and equipment, net	78,097	9,990
Goodwill	30,379	13,724
Intangible assets, net	35,994	11,572
Other assets	5,464	1,144
Deferred income taxes	7,806	7,837
Total assets	$ 372,533	$ 233,307
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 56,086	$ 39,514
Notes payable	35,000	
Accrued sales discounts, rebates and royalties	7,942	6,028
Accrued income taxes	5,873	3,254
Accrued compensation	30,634	4,619
Other accrued expenses	13,157	8,539
Total current liabilities	148,692	61,954
Long-term liabilities:		
Deferred income taxes	11,369	153
Income tax payable	1,212	1,348
Other long-term liabilities	56	122
Total liabilities	161,329	63,577
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; 20,877,248 and 19,140,232 shares issued at December 31, 2010 and 2009, respectively	209	191
Paid-in capital	166,940	128,913
Accumulated other comprehensive (loss) income	(489)	1,463
Retained earnings	134,070	118,989
	300,730	249,556
Less cost of common stock in treasury, 5,926,071 and 5,449,962 shares at December 31, 2010 and 2009, respectively	(89,526)	(79,826)
Total stockholders equity	211,204	169,730
Total liabilities and stockholders equity	$ 372,533	$ 233,307

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

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

	Year Ended December 31,		
	2010	**2009**	**2008**
Net sales	$ 331,780	$ 317,550	$ 287,100
Cost of sales	227,931	215,938	190,910
Gross profit	103,849	101,612	96,190
Research and development expenses	10,709	8,691	8,160
Selling, general and administrative expenses	71,839	70,974	67,269
Operating income	21,301	21,947	20,761
Interest income, net	34	471	3,017
Other income (expense), net	523	(241)	311
Income before provision for income taxes	21,858	22,177	24,089
Provision for income taxes	6,777	7,502	8,283
Net income	$ 15,081	$ 14,675	$ 15,806
Earnings per share:			
Basic	$ 1.10	$ 1.07	$ 1.13
Diluted	$ 1.07	$ 1.05	$ 1.09
Shares used in computing earnings per share:			
Basic	13,764	13,667	14,015
Diluted	14,106	13,971	14,456

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

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

	Common Stock Issued		Common Stock in Treasury			Accumulated Other Comprehensive Income (Loss)			
	Shares	Amount	Shares	Amount	Paid-in Capital		Retained Earnings	Totals	Comprehensive Income
Balance at December 31, 2007	18,547	$ 185	(3,975)	$ (46,113)	$ 114,441	$ 11,221	$ 88,508	$ 168,242	
Comprehensive income:									
Net income							15,806		$ 15,806
Currency translation adjustment						(10,471)			(10,471)