

UNIVERSAL ELECTRONICS INC

Form 10-K

March 12, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTIONS 13 OR

15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-21044

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UNIVERSAL ELECTRONICS INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of

Incorporation or Organization)

33-0204817

(I.R.S. Employer

Identification No.)

201 E. Sandpointe Avenue, 8<sup>th</sup> Floor

Santa Ana, California

(Address of Principal Executive Offices)

92707

(Zip Code)

Registrant's telephone number, including area code: (714) 918-9500

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

Common Stock, par value \$.01 per share

(Title of Class)

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

None

The NASDAQ Global Select Market

(Name of each exchange on which registered)

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

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

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

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  No

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

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

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter was \$344,164,361 based upon the closing sale price as reported on the NASDAQ Global Select Market for that date. On March 10, 2014, 15,889,800 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, 2013 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, 2014.

Except as otherwise stated, the information contained in this Form 10-K is as of December 31, 2013.

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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 developments 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", "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" 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. ("UEI") was incorporated under the laws of Delaware in 1986 and began operations in 1987. The principal executive offices are located at 201 E. Sandpointe Avenue, 8th Floor, Santa Ana, California 92707. As used herein, the terms "we", "us" and "our" refer to UEI and its subsidiaries unless the context indicates to the contrary.

Additional information regarding UEI may be obtained at [www.uei.com](http://www.uei.com). Our website address is not intended to function as a hyperlink and the information available at our website address is not incorporated by reference into this Annual Report on Form 10-K. We make our periodic and current reports, together with amendments to these reports, available on our website, free of charge, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the U.S. Securities and Exchange Commission ("SEC"). The SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains the reports, proxy and other information that we file electronically with the SEC.

#### Business Segment

##### Overview

Universal Electronics Inc. develops control technology solutions and manufactures a broad line of pre-programmed universal remote control products, embedded hardware and software, and audio-video ("AV") accessories that enhance and simplify the home entertainment experience. 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, satellite and IPTV), original equipment manufacturers ("OEMs"), retailers, and private label customers;

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integrated circuits, on which our software and universal device control database is embedded, sold primarily to OEMs, subscription broadcasting providers, and private label customers;

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software, firmware and technology solutions that can enable devices such as TVs, set-top boxes, stereos, smart phones, tablets, gaming controllers and other consumer electronic devices to wirelessly connect and interact with home networks and interactive services to control and deliver digital entertainment and information; intellectual property which we license primarily to OEMs, software development companies, private label customers, and subscription broadcasting providers; and AV accessories sold, directly and indirectly, to consumers.

Our business is comprised of one reportable segment.

### Principal Products and Markets

Our principal markets are the subscription broadcast and consumer electronics markets where our customers include subscription broadcasters, OEMs, international retailers, private labels and companies in the computing industry. We provide subscription broadcasting providers, both domestically and internationally, with our universal remote control devices and integrated circuits, on which our software and device code database library is embedded. We also sell our universal remote control devices and integrated circuits, on which our software and device code database library is embedded, to OEMs that manufacture AV devices including digital set-top boxes, computers and gaming consoles.

We continue to place significant emphasis on expanding our sales and marketing efforts to subscription broadcasters and OEMs in Asia, Latin America and Europe. Owning and operating our own factories in the PRC has enhanced our ability to compete in the OEM and subscription broadcasting markets, particularly in Asia. In addition, in 2010 we opened a new subsidiary in Brazil, which has allowed us to increase our reach and better compete in the Latin American subscription broadcast market. We plan to continue to add new sales and administrative personnel to support anticipated sales growth in these markets over the next few years.

We continue to pursue further penetration of the more traditional OEM consumer electronics markets as well as newer product categories in the mobile electronics markets such as smart phones, tablets and other mobile smart devices. Customers in these markets integrate our products and technology into their products to simplify and expand the universal control capabilities of home entertainment ecosystems. Growth in these markets has been driven by the increasing complexity of home entertainment, emerging digital technology, multimedia and interactive internet applications, and the increasing proliferation of connected smart devices offered by OEMs.

For the years ended December 31, 2013, 2012, and 2011, our sales to DIRECTV and its sub-contractors collectively accounted for 15.6%, 16.9%, and 12.2% of our net sales, respectively. For the year ended December 31, 2011, our sales to Sony and its sub-contractors collectively accounted for 10.3% of our net sales.

Our One For All® brand name remote controls and accessories sold within the international retail markets accounted for 9.4%, 10.3%, and 9.3% of our total net sales for the years ended December 31, 2013, 2012, and 2011, respectively. Throughout 2013, we continued our international retail sales and marketing efforts. Financial information relating to our international operations for the years ended December 31, 2013, 2012, and 2011 is included in "ITEM 8.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA-Notes to Consolidated Financial Statements-Note 15".

### 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. At the end of 2013 we had 269 issued and pending United States patents as well as hundreds of foreign counterpart patents and applications in various territories around the world.

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.

A key factor in creating products and software for control of entertainment devices is the device control code database. Since our beginning in 1986, we have compiled an extensive device control code database library that covers over 787,600 individual device functions and approximately 6,400 individual consumer electronic equipment brand names. Our library is regularly updated with device control codes used in newly introduced AV devices. These control codes are captured directly from the remote control

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devices or the manufacturer's written specifications to ensure the accuracy and integrity of the database. Our universal remote control database is capable of controlling virtually all IR controlled set-top boxes, televisions, audio components, DVD players, Blu-Ray players, and CD players, as well as most other remote controlled home entertainment devices and home automation control modules worldwide. In 2012, we extended our device control code database to include wired (CEC) and wireless (IP) control protocols commonly found on many of the latest HDMI and internet connected devices. Our proprietary software and know-how permit us to offer a device control code database that is more robust and efficient than similarly priced products of our competitors.

Our goal is to provide universal entertainment control solutions that require minimal or no user set-up and deliver consistent and intuitive one-touch control of all connected content sources. UEI QuickSet is a software application that is currently embedded in millions of devices globally. UEI QuickSet may be embedded in an AV device, set-top box, or other host device for a universal remote control. 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 device. The two-way connection allows device control code data and configuration settings to be sent to the remote control from the device and greatly simplifies the universal remote control set-up process and can enable other time saving features. The latest version of UEI QuickSet utilizes data transmitted over HDMI to automatically detect a connected device and then determine and download the correct codes into the remote control without the need for the user to enter any additional information. The user does not need to know the brand or model number to set up the device in the remote. Any compatible new device that is connected is recognized. Consumers can easily and quickly set up their remotes to control multiple devices effortlessly. Licensees of UEI QuickSet currently include leading cable and satellite service providers such as DIRECTV and Echostar Technologies, as well as leading brands in the video game industry, such as Nintendo on their WiiU platform, and more recently, Microsoft on their Xbox One gaming system.

Smart devices are becoming a more prevalent part of the home entertainment experience, and UEI offers several solutions to enable entertainment device control with a smart phone, tablet or smart TV. In its smart device control solutions, UEI offers all of the elements needed for device control from the micro IR blaster chip to the IR database to the user interface for the touchscreen. Nevo is a UEI-designed and developed universal control application designed for Android and iOS tablets and smart phones that UEI has released and that is currently available for download at Google Play and the Apple App Store.

### Methods of Distribution

Our distribution methods for our remote control devices are dependent on the sales channel. We distribute remote control devices and AV accessories directly to subscription broadcasters and OEMs, both domestically and internationally. 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 device control codes. We ship integrated circuits, on which our software and control code database are 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 OEMs through our live and automated call centers. We also make available a web-based support resource, [www.urcsupport.com](http://www.urcsupport.com), designed specifically for subscription broadcasters. This solution offers videos and online tools to help users easily set up their universal remote, and as a result reduce call volume at customer support centers. Additionally, the UEI Technical Support Services call center provides customer interaction management services from service and support to retention. Services include pre-repair calls, post-install surveys, and inbound calls for cable customers to provide greater bottom-line efficiencies.





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Our twenty-three 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;
- UEI Hong Kong Holdings Co. Pte. Ltd., established in Hong Kong;
- 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 (Yangzhou) Co. Ltd., established in the PRC;
- Gemstar Technology (Qinzhou) Co. Ltd., established in the PRC;
- 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 remote control products. In 2013 and 2012, no single supplier provided more than 10% of our total inventory purchases. In 2011, Samsung provided 10.2% of our total inventory purchases.

Even though we own and operate three factories in the PRC and one assembly plant in Brazil, we continue to evaluate additional contract manufacturers and sources of supply. During 2013, 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 second half of the year. We expect this pattern to be repeated during 2014.

See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 21" for further details regarding our quarterly results.

### Competition

Our principal competitors in the subscription broadcasting market are Remote Solutions, Philips Consumer Electronics, and Universal Remote Control. In the international retail and private label markets for wireless controls we compete with Logitech, Philips Consumer Electronics, 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 Logitech, Philips Consumer Electronics, Ruwido, SMK, Universal Remote Control, Remote Solutions and



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various manufacturers in Asia in the IR database market. 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 and software solutions to remain competitive and to recruit and retain competent personnel to successfully accomplish our future objectives.

## Engineering, Research and Development

During 2013, 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;
- improving our software control solutions;
- launching new embedded software solutions designed to simplify set-up and control features; and
- updating our library of device codes to include codes for new features and devices introduced worldwide.

During 2013, our advanced engineering efforts focused on further developing our existing products, services and technologies. We released software updates to our embedded UEI QuickSet application, and we continued development projects for emerging RF technologies, such as RF4CE, Bluetooth, Bluetooth Smart and Wi-Fi Direct. Additionally, we released several new products in our subscription broadcast, OEM and consumer retail channels during 2013.

Our personnel are involved with various industry organizations and bodies, which are in the process of setting standards for IR, RF, power line, telephone and cable communications and networking in the home. Because of the nature of research and development activities, there can be no assurance that any of our research and development projects will be successfully completed or ultimately achieve commercial success.

Our expenditures on engineering, research and development were:

(In millions):	2013	2012	2011
Research and development	\$16.4	\$14.2	\$12.3
Engineering <sup>(1)</sup>	8.7	8.6	9.8
Total engineering, research and development	\$25.1	\$22.8	\$22.1

<sup>(1)</sup> 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 financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. Our European subsidiaries are WEEE compliant. 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, 2013, 2012 and 2011, 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.



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## Employees

At December 31, 2013, we employed 1,831 employees, of which 470 worked in engineering and research and development, 75 in sales and marketing, 82 in consumer service and support, 973 in operations and warehousing and 231 in executive and administrative functions. In addition, our factories in the PRC and our Asian operations employed an additional 6,674 staff contracted through agency agreements.

Labor unions represent approximately 7.0% of our 1,831 employees. These unionized workers, employed within Manaus, Brazil, are represented under contract with the Sindicato dos Trabalhadores das Industrias de Aparelhos Eléctricos, Eletrônicos e Similares de Manaus. Our business units are subject to various laws and regulations relating to their relationships with their employees. These laws and regulations are specific to the location of each business unit. We believe that our relationships with employees and their representative organizations are good.

## International Operations

Financial information relating to our international operations for the years ended December 31, 2013, 2012 and 2011 is incorporated by reference to "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 15".

Executive Officers of the Registrant<sup>(1)</sup>

The following table sets forth certain information concerning our executive officers on March 12, 2014:

Name	Age	Position
Paul D. Arling	51	Chairman of the Board and Chief Executive Officer
Paul J.M. Bennett	58	Executive Vice President, Managing Director, Europe
Mark S. Kopaskie	56	Executive Vice President, General Manager U.S. Operations
David Chong	52	Executive Vice President, Asia
Bryan M. Hackworth	44	Senior Vice President and Chief Financial Officer
Richard A. Firehammer, Jr.	56	Senior Vice President, General Counsel and Secretary

<sup>(1)</sup> 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 2013 Annual Meeting of Stockholders, Mr. Arling was re-elected as our Chairman to serve until the 2014 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 Philips' 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.

David Chong is our Executive Vice President, Asia. He is responsible for general management of our Asia region and Global Operations. Mr. Chong joined us in January 2009 as Senior Vice President of Global OEM. Prior to joining us, Mr. Chong served

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as Senior Vice President at Philips Consumer Electronics Division, as the Chief Marketing Officer of the business group Philips Display (Philips TV and Computer Monitor business). At Philips Display, he led the re-engineering of the Product Creation, Marketing and Sales Organization to compete successfully in the LCD TV space. Prior to this, he also served as Vice President and General Manager of the Audio Video Business in Asia, Vice President and Global Business Line Manager for Audio and various senior management positions at Philips' CE Division. Mr. Chong started at Philips Research Lab in 1984 as a research scientist working in the area of VLSI design methodologies. He also served as Managing Director for Asia at InVue Security Product before joining us at the present position. Mr. Chong had his senior education in The United Kingdom, holding a B.S. in Electrical and Electronics Engineering with High Honors from University of Nottingham.

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.

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 & Kamholz in Chicago, Illinois.

ITEM 1A. RISK FACTORS

We face a variety of risks that may affect our business, financial condition, operating results, the trading price of our common stock, or any combination thereof. The following information and the other information in this Form 10-K and in our other filings with the SEC, including subsequent reports on Forms 10-Q and 8-K, should be carefully considered in evaluating our business and prospects and before making an investment decision with respect to our common stock. If any of these risks were to occur, our business, financial condition, results of operations or prospects may be materially and adversely affected. In such an event, the market price of our common stock may decline and you may lose all or part of your investment. The risks and uncertainties we describe below are not the only ones facing us. Additional risks not presently known to us or that we currently deem immaterial may also affect our business.

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 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.

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.

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. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our business. 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.

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

Under Chinese monetary policy, the Chinese Yuan Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This policy, which was initiated during 2005, has resulted in a 34.1% appreciation of the Chinese Yuan Renminbi against the U.S. Dollar as of December 31, 2013. While the international reaction to the Chinese Yuan Renminbi revaluation has been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which may 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 and are still rudimentary, with enforcement of existing laws inconsistent. In addition, the promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign investors.

Availability of adequate workforce levels

Presently, the vast majority of workers at our 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 may experience an increase in competition 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 and retain these workers.

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.

Risks Related to Adverse Changes in General Business and Economic Conditions in the United States and Worldwide and Continued Recession and Tightening in the United States and Worldwide Credit Markets

Adverse changes in general business and economic conditions in the United States and worldwide may reduce the demand for some of our products and adversely affect our results of operations, cash flow, liquidity or financial condition. Higher inflation rates, interest rates, tax rates and unemployment rates, higher labor and health care costs, recessions, changing governmental policies, laws and regulations, and other economic factors may adversely affect our results of operations, cash flow, liquidity or financial condition.

In addition, the global financial crisis affecting the banking system and financial markets 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 and cyclical nature of portions of our business

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.

In addition, portions of our business involve the sale of products to sectors of the economy that are cyclical in nature, particularly the retail sector. Our sales to these sectors are affected by the levels of discretionary consumer and business spending. During economic downturns, the levels of consumer and business discretionary spending in these sectors may decrease, and the recovery of these sectors may lag behind the recovery of the overall economy. This decrease in spending will likely reduce the demand for some of our products and may adversely affect our sales, earnings, cash flow or financial condition. Although many of our end markets have started to show signs of stabilization and modest improvement, the recovery has been erratic and challenging market conditions are expected to continue for the foreseeable future and may worsen. A worsening in these sectors may cause a reduction in the demand for some of our products and may adversely impact sales, earnings, cash flow and financial condition.

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.

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### 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. Continuation of these conditions may limit our ability to collect our accounts receivable, which 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

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 two sources. To reduce our dependence on our integrated circuits suppliers we continually seek additional sources. We 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.

### Disruption of Our Supply Chain May Have an Adverse Effect on Our Business, Financial Condition and Results of Operations

Our ability, including manufacturing or distribution capabilities, and that of our suppliers, business partners and contract manufacturers, to make, move and sell products is critical to our success. Damage or disruption to our or their manufacturing or distribution capabilities due to weather, natural disaster, fire or explosion, terrorism, pandemics, strikes, or other reasons, may impair our ability to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, may adversely affect our business, financial condition and results of operations, as well as require additional resources to restore our supply chain.

### Dependence on Foreign Manufacturing

Although we own and operate factories in the PRC, third-party manufacturers located in the PRC continue to manufacture a portion 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, changes in laws and policies (including fiscal policies), 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

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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.

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.

### Fluctuations in Foreign Currency Exchange Rates May Adversely Affect Our Results of Operations, Cash Flow, Liquidity or Financial Condition.

Because of our international operations, we are exposed to risk associated with interest rates and value changes in foreign currencies, which may adversely affect our business. Historically, our reported net sales, earnings, cash flow and financial condition have been subjected to fluctuations in foreign exchange rates. Our primary exchange rate exposure is in the Argentinian Peso, Brazilian Real, British Pound, Chinese Yuan Renminbi, Euro, Hong Kong Dollar, Indian Rupee, and Singapore Dollar. While we actively manage the exposure of our foreign currency risk as part of our overall financial risk management policy, we believe we may experience losses from foreign currency exchange rate fluctuations, and such losses may adversely affect our sales, earnings, cash flow, liquidity or financial condition.

### Our Ability to Generate Cash Depends on Many Factors Beyond Our Control. We Also Depend on the Business of Our Subsidiaries to Satisfy Our Cash Needs.

Our historical financial results have been, and we anticipate that our future financial results will be, subject to fluctuations. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure you that our business will generate sufficient cash flow from our operations or that future borrowings will be available to us in an amount sufficient to enable us to make payments of our debt, fund our other liquidity needs and make planned capital expenditures.

A significant portion of our operations are conducted through our subsidiaries. As a result, our ability to generate sufficient cash flow for our needs is dependent to some extent on the earnings of our subsidiaries and the payment of those earnings to us in the form of dividends, loans or advances and through repayment of loans or advances from us. Our subsidiaries are separate and distinct legal entities. Our subsidiaries have no obligation to pay any amounts due on our debt or to provide us with funds to meet our cash flow needs, whether in the form of dividends, distributions, loans or other payments. In addition, any payment of dividends, loans or advances by our subsidiaries may be subject to statutory or contractual restrictions. Payments to us by our subsidiaries will also be contingent upon our subsidiaries' earnings and business considerations. Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors. In addition, even if we are a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us. Further, changes in the laws of foreign jurisdictions in which we operate may adversely affect the ability of some of our foreign subsidiaries to repatriate funds to us.

In addition, we generally fund a portion of our seasonal working capital needs and obtain funding for other general corporate purposes through short-term borrowings backed by our revolving credit facility and other financing facilities. If any of the banks in these credit and financing facilities are unable to perform on their commitments, which may adversely affect our ability to fund seasonal working capital needs and obtain funding for other general

corporate purposes, our cash flow, liquidity or financial condition may be adversely impacted. Although we currently have available credit facilities to fund our current operating needs, we cannot be certain that we will be able to replace our existing credit facilities or refinance our existing or future debt when necessary. Our cost of borrowing and ability to access the capital markets are affected not only by market conditions, but also by our debt and credit ratings assigned by the major credit rating agencies. Downgrades in these ratings will increase our cost of borrowing and may have an adverse effect on our access to the capital markets, including our access to the commercial paper market. An inability to access the capital markets may have a material adverse effect on our results of operations, cash flow, liquidity or financial condition.

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**The Price of Our Common Stock is Volatile and May Decline Regardless of Our Operating Performance.**

Historically, we have had large fluctuations in the price of our common stock, and such fluctuations may continue. From January 1, 2011 to March 10, 2014, the trading price of our common stock has ranged from a low of \$11.40 per share to a high of \$45.24 per share. The market price for our common stock is volatile and may fluctuate significantly in response to a number of factors, most of which we cannot control, including:

the public's response to press releases or other public announcements by us or third parties, including our filings with the SEC and announcements relating to product and technology development, relationships with new and existing customers, litigation and other legal proceedings in which we are involved and intellectual property impacting us or our business;

announcements concerning strategic transactions, such as spin-offs, joint ventures and acquisitions or divestitures; the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;

- changes in financial estimates or ratings by any securities analysts who follow our common stock, our failure to meet these estimates or failure of those analysts to initiate or maintain coverage of our common stock;

investor perceptions as to the likelihood of achievement of near-term goals;

changes in market share of significant customers;

changes in operating performance and stock market valuations of other technology or content providing companies generally; and

market conditions or trends in our industry or the economy as a whole.

In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were involved in securities litigation, we may incur substantial costs and our resources and the attention of management may be diverted from our business.

In addition, our executive officers periodically sell shares of our common stock which they own, often pursuant to trading plans established under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Sales of shares by our executive officers may not be indicative of their respective opinions of the company's performance at the time of sale or of our potential future performance. Nonetheless, the market price of our stock may be affected by such sales of shares by our executive officers.

**If Securities or Industry Analysts Fail to Continue Publishing Research About Our Business, Our Stock Price and Trading Volume May Decline.**

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we may lose visibility in the financial markets, which in turn may cause our stock price or trading volume to decline.

**Future Sales of Our Equity May Depress the Market Price of Our Common Stock.**

We have several institutional stockholders that own significant blocks of our common stock. If one or more of these stockholders were to sell large portions of their holdings in a relatively short time, for liquidity or other reasons, the prevailing market price of our common stock may be negatively affected.

**Approved Stock Repurchase Programs May Not Result in a Positive Return of Capital to Stockholders.**

Our board-approved stock repurchase program may not return value to stockholders because the market price of the stock may decline significantly below the levels at which we repurchased shares of stock. Stock repurchase programs are intended to deliver stockholder value over the long term, but stock price fluctuations can reduce the effectiveness of such programs.

**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.





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### 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, retailers 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, Asia and Latin America currently representing our principal foreign markets.

During the years ended December 31, 2013 and 2012, we had sales to DIRECTV and its sub-contractors, that when combined, totaled 10% or more of our net sales. During the year ended December 31, 2011, we had sales to Sony and its sub-contractors and to DIRECTV and its sub-contractors, that when combined, each totaled 10% or more of our net sales. The loss of any 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.

### Outsourced Labor

We continue to use outside resources to assist us in the development of some of our products and technologies. 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 and technologies may be substantially delayed, which may have a material adverse effect on our operating results, financial condition and cash flows.

### Competition

Competition within the wireless control industry is 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. Other competitors are smaller and may be able to offer more specialized products. 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. Competition in any of these areas may reduce our sales and adversely affect our earnings or cash flow by resulting in decreased sales volumes, reduced prices and increased costs of manufacturing, distributing and selling our products. There can be no assurance that our product offerings will be, and/or will remain, competitive or that strategic alliances, if any, will achieve the type, extent, and amount of success or

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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 our business is not 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 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, coups, and actual or anticipated military conflicts;
- so called "Acts of God", such as hurricanes, earthquakes, tsunamis, and other natural disasters, man-made disasters, and the spread of contagious diseases, such as H1N1 Flu, Avian Flu, and SARS, in locations where we own, manage or operate our business;
- currency fluctuations affecting gross margins, particularly in the Chinese Yuan Renminbi, Euro, British Pound, Argentinian Peso, Brazilian Real, Indian Rupee, and Singapore Dollar;
- 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;
- production stoppages or pressures to increase wages and employee benefits brought about by the union representing our labor force in Manaus, Brazil;
- changes in the regulatory or legal environment;
- inability to protect and enforce our intellectual property rights;
- 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;
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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.

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**Risks and Uncertainties Associated with Our Expansion Into and Our Operations in Asia, Europe, Mexico, South America and Other Foreign Markets May Adversely Affect Our Results of Operations, Cash Flow, Liquidity or Financial Condition**

Net external sales of our consolidated foreign subsidiaries totaled approximately 53.0%, 54.5% and 57.3% of our total consolidated net sales in 2013, 2012 and 2011, respectively. Sales outside of the United States make up a significant part of our current business and future strategic plans. Our results of operations, cash flow, liquidity or financial condition may be adversely affected by a variety of international factors, including general economic conditions, inflation rates, recessions, foreign currency exchange rates, foreign currency exchange controls, interest rates, foreign investment and repatriation restrictions, legal and regulatory constraints, civil unrest, difficulties in staffing and managing foreign operations and other external economic and political factors. Our inability to successfully manage the risks and uncertainties relating to these factors may adversely affect our results of operations, cash flow, liquidity or financial condition.

In many foreign countries, it is acceptable to engage in certain business practices that we are prohibited from engaging in because of regulations that are applicable to us, such as the Foreign Corrupt Practices Act and the UK Bribery Act. Although we have internal control policies and procedures designed to ensure compliance with these regulations, there can be no assurance that our policies and procedures will prevent a violation of these regulations. Any violation may cause an adverse effect on our results of operations, cash flow or financial condition.

### **Our Brand Quality and Reputation**

Our business depends on the quality and reputation of our brands, and any deterioration in the quality or reputation of these brands may have an adverse impact on our market share, reputation, business, financial condition or results of operations. Events that may be beyond our control may affect the reputation of one or more of our products or more generally impact the reputation of our brands. If the reputation or perceived quality of our brands declines, our market share, reputation, business, financial condition or results of operations may be affected.

### **Failure to Maintain the Integrity of Internal or Customer Data May Result in Faulty Business Decisions, Operational Inefficiencies, Damage of Reputation and/or Subject Us to Costs, Fines, or Lawsuits**

Our business requires collection and retention of large volumes of internal and customer data, including personally identifiable information of our customers in various information systems that we maintain and in those maintained by third parties with whom we contract to provide services, including in areas such as banking, human resources outsourcing, website hosting, and email marketing. We also maintain personally identifiable information about our employees. The integrity and protection of that customer, employee, and company data is critical to us. If that data is inaccurate or incomplete, we may make faulty decisions. Our customers and employees also have a high expectation that we and our service providers will adequately protect their personal information. The regulatory environment as well as the requirements imposed on us regarding such information, security and privacy is also increasingly demanding, in both the United States and other jurisdictions in which we operate. Our systems may be unable to satisfy changing regulatory requirements and employee and customer expectations, or may require significant additional investments or time in order to do so. Our information systems and records, including those we maintain with our service providers, may be subject to security breaches, system failures, viruses, operator error or inadvertent releases of data. A significant theft, loss, or fraudulent use of customer, employee, or company data maintained by us or by a service provider may adversely impact our reputation and may result in remedial and other expenses, fines, or litigation. A breach in the security of our information systems or those of our service providers may lead to an interruption in the operation of our systems, resulting in operational inefficiencies and a loss of profits.

### **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 SEC. Any such action may adversely affect our financial results and the market price of our common stock.

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### Unanticipated Changes in Tax and Other Laws and Regulations

Our business is subject to regulation under a wide variety of laws, regulations and policies in jurisdictions around the world. In response to the recent economic crisis and the recent recession, we anticipate that many of the jurisdictions in which we do business will continue to review tax and other revenue raising laws, regulations and policies, and any resulting changes may impose new restrictions, costs or prohibitions on our current practices and reduce our profits. In particular, governments may revise tax laws, regulations or official interpretations in ways that may have a significant impact on us, including modifications that may reduce the profits that we can effectively realize from our non-U.S. operations, or that may require costly changes to those operations, or the way in which they are structured. For example, most U.S. company effective tax rates reflect the fact that income earned and reinvested outside the United States is generally taxed at local rates, which are often much lower than U.S. tax rates. If changes in tax laws, regulations or interpretations significantly increase the tax rates on non-U.S. income, our effective tax rate may increase and our profits may be reduced. If such increases resulted from our status as a U.S. company, those changes may place us at a disadvantage to our non-U.S. competitors if those competitors remain subject to lower local tax rates.

In addition, 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.

### 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 restricting the presence of certain substances in electronics products. In addition, many of these laws and regulations make producers of electrical goods responsible for collection, recycling, treatment and disposal of recovered products. As a result, 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 and RF and other technologies. Other control technologies exist or may be developed that may compete with this technology. 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. In addition, 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.

### Our Technology Development Activities may Experience Delays.

We may experience technical, financial, resource or other difficulties or delays related to the further development of our technologies. Delays may have adverse financial effects and may allow competitors with comparable technology offerings to gain an advantage over us in the marketplace or in the standards setting arena. There can be no assurance



that we will continue to have adequate staffing or that our development efforts will ultimately be successful. Moreover, certain of our technologies have not been fully tested in commercial use, and it is possible that they may not perform as expected. In such cases, our business, financial condition and operating results may be adversely affected, and our ability to secure new licensees and other business opportunities may be diminished.

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### 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, training, developing and retaining highly skilled engineering, managerial, operational, sales and marketing personnel. If our salary and benefits fail to stay competitive it may negatively impact our ability to hire and retain key personnel and we may experience low morale, inefficiency or internal control failures. The inability to recruit, hire, train, develop and retain qualified personnel, or the loss of any key personnel, may make it difficult to meet key objectives, such as timely and effective product introductions and also limit our ability to grow and expand our business.

### Change in Competition and Pricing

Even with having our own factories located in the PRC, we will continue to rely on third-party manufacturers to build a portion of 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 and Impact of Oil Prices

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

### Proprietary Technologies

We produce highly complex products that incorporate leading-edge technology, including hardware, firmware, and software. Firmware and software may contain bugs that 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 re-engineering 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 subject to specific accounting guidelines that may adversely affect our financial condition, results of operations and cash flow.

### Growth Projections

Management has made 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:

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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 conducting business in Asian and Brazilian markets, 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;

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the expected continued adoption of the company's technologies in gaming consoles and mobile devices;  
the expected continued growth in digital TVs, DVRs, 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.

Additionally, we have goodwill and intangible assets recorded on our balance sheet. We periodically evaluate the recoverability of the carrying value of our goodwill and intangible assets whenever events or changes in circumstances indicate that such value may not be recoverable. Impairment assessment involves judgment as to assumptions regarding future sales and cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact our assumptions and may result in changes in our estimates of future sales and cash flows that may result in us incurring substantial impairment charges, which would adversely affect our results of operations or financial condition.

Market Projections and Data are Forward-looking in Nature.

Our strategy is based on our own projections and on analyst, industry observer and expert projections, which are forward-looking in nature and are inherently subject to risks and uncertainties. The validity of their and our assumptions, the timing and scope of the markets within which we compete, economic conditions, customer buying patterns, the timeliness of equipment development, pricing of products, and availability of capital for infrastructure improvements may affect these predictions. In addition, market data upon which we rely is based on third party reports that may be inaccurate. The inaccuracy of any of these projections and/or market data may adversely affect our operating results and financial condition.

Delaware Law and Our Governing Corporate Documents Contain, and Our Board of Directors May Implement, Antitakeover Provisions that May Deter Takeover Attempts

Under the Delaware business combination statute, a stockholder holding 15 percent or more of our outstanding voting stock may not acquire us without Board of Director consent for at least three years after the date the stockholder first held 15 percent or more of the voting stock. Our governing corporate documents also, among other things, require super-majority votes in connection with mergers and similar transactions. In addition, our Board of Directors may, without stockholder approval, implement other anti-takeover defenses, such as a stockholder's rights plan.

Regulations Related to the Use of Conflict-Free Minerals May Increase Our Costs and Expenses, and an Inability to Certify that Our Products are Conflict-Free May Adversely Affect Customer Relationships

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve the transparency and accountability of the use by public companies in their products of minerals mined in certain countries and to prevent the sourcing of such "conflict" minerals. As a result, the Securities and Exchange Commission enacted new annual disclosure and reporting requirements for public companies that use these minerals in their products, which apply to us. Under the final rules, we are required to conduct due diligence to determine the source of any conflict minerals used in our products and to make annual disclosures beginning in May 2014. Because our supply chain is broad-based and complex, we may not be able to easily verify the origins for all minerals used in our products. In addition, the new rules may reduce the number of suppliers who provide components and products containing conflict-free minerals and thus may increase the cost of the components used in manufacturing our products and the costs of our products to us. Any increased costs and expenses may have a material adverse impact on our financial condition and results of operations. Further, if we are unable to certify that our products are conflict free, we may face challenges with our customers, which may place us at a competitive disadvantage, and our reputation may be harmed.

We are Subject to a Wide Variety of Complex Domestic and Foreign Laws and Regulations.

We are subject to a wide variety of complex domestic and foreign laws and regulations, and legal compliance risks, including securities laws, tax laws, employment and pension-related laws, competition laws, U.S. and foreign export and trading laws, and laws governing improper business practices. We are affected by new laws and regulations, and changes to existing laws and regulations, including interpretations by courts and regulators. From time to time, our Company, our operations and the industries in which we operate are being reviewed or investigated by regulators, which may lead to enforcement actions or the assertion of private litigation claims and damages.

Although we believe that we have adopted appropriate risk management and compliance programs to mitigate these risks, the global and diverse nature of our operations means that compliance risks will continue to exist.

Investigations, examinations and

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other proceedings, the nature and outcome of which cannot be predicted, will likely arise from time to time. These investigations, examinations and other proceedings may subject us to significant liability and require us to make significant accruals or pay significant settlements, fines and penalties, which may have a material adverse effect on our results of operations, cash flow or financial condition.

We are Required to Comply with Numerous Complex and Increasingly Stringent Domestic and Foreign Health, Safety and Environmental Laws and Regulations, the Cost of Which is Likely to Increase.

Our operations are subject to various domestic and foreign health, safety and environmental laws and regulations. These laws and regulations not only govern our current operations and products, but also impose potential liability on us for our past operations. We expect health, safety and environmental laws and regulations to impose increasingly stringent requirements upon our industry and us in the future. Our costs to comply with these laws and regulations may increase as these requirements become more stringent in the future, and these increased costs may adversely affect our results of operations, cash flow or financial condition.

Changes in Financial Accounting Standards or Policies may affect our Reported Financial Condition or Results of Operations.

From time to time the Financial Accounting Standards Board (the “FASB”) and the SEC change their guidance governing the form and content of our external financial statements. In addition, accounting standard setters and those who interpret U.S. generally accepted accounting principles (“GAAP”), such as the FASB and the SEC may change or even reverse their previous interpretations or positions with regard to how these standards should be applied. A change in accounting principles or their interpretation can have a significant effect on our reported results. In certain cases, the company may be required to apply new or revised guidance retroactively or apply existing guidance differently. For example, in January 2012, the FASB and International Accounting Standards Board released an updated exposure draft, Revenue from Contracts with Customers, which, if it becomes final, may significantly impact the timing of revenue recognition for new and existing contracts with licensees. This and other potential changes in reporting standards may substantially change our reporting practices in a number of areas, including revenue recognition and recording of assets and liabilities, and affect our reported financial condition or results of operations.

**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 Santa Ana, California. We utilize the following facilities:

Location	Purpose or Use	Square Feet	Status
Santa Ana, California	Corporate headquarters, engineering, research and development	36,184	Leased, expires October 31, 2022
Twinsburg, Ohio	Call center	21,509	Leased, expires December 31, 2014
Enschede, Netherlands	European headquarters and call center	19,137	Leased, expires February 28, 2019
Bangalore, India	Engineering, research and development	17,713	Leased, expires September 30, 2014
San Mateo, California	Engineering, research and development	4,785	Leased, expires August 15, 2016
Hong Kong, PRC	Asian headquarters	12,000	Leased, expires on June 30, 2016
Guangzhou, PRC <sup>(1)</sup>	Manufacturing facility	710,203	Land leased, expires June 30, 2044
Yangzhou, PRC <sup>(1)</sup>	Manufacturing facility	1,204,697	Land leased, expires July 31, 2055
Qinzhou, PRC	Manufacturing facility	980,646	Leased, expires May 31, 2018
Manaus, Brazil	Manufacturing facility	21,709	Leased, expires September 30, 2014

Private ownership of land in mainland PRC is not allowed. All land in the PRC is owned by the government and <sup>(1)</sup> 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.

Upon expiration of our facilities leases, 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. MINE SAFETY DISCLOSURES

Not applicable.

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## 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 10, 2014 was \$42.88. Our stockholders of record on March 10, 2014 numbered 80. 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.

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

	2013		2012	
	High	Low	High	Low
First Quarter	\$24.37	\$18.09	\$20.91	\$16.39
Second Quarter	28.82	20.23	20.27	11.40
Third Quarter	36.71	28.10	17.90	12.19
Fourth Quarter	40.57	33.02	19.86	14.36

## 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
10/1/2013 - 10/31/2013	5,889	\$ 36.52	5,889	939,923
11/1/2013 - 11/30/2013	5,777	36.96	5,777	934,146
12/1/2013 - 12/31/2013	690	37.62	690	933,456
Total during fourth quarter	12,356	\$ 36.79	12,356	933,456

During the year ended December 31, 2013, we repurchased 153,115 shares of our issued and outstanding common stock for \$3.6 million under the ongoing and systematic programs approved by our Board of Directors. 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, 2013, we had 933,456 shares available for repurchase under the Board's authorizations.

## 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 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".



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## 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"), the NASDAQ Composite Index, and the Peer Group Index for the five year period ended December 31, 2013. The comparison assumes that \$100 is invested on December 31, 2008 in each of our common stock, S&P Small Cap 600, the NASDAQ Composite Index, and the Peer Group 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.

	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Universal Electronics Inc.	\$100	\$143	\$175	\$104	\$119	\$235
S&P Small Cap 600	\$100	\$124	\$155	\$154	\$177	\$248
NASDAQ Composite Index	\$100	\$144	\$168	\$165	\$191	\$265
Peer Group Index <sup>(1)</sup>	\$100	\$154	\$219	\$106	\$106	\$159

<sup>(1)</sup> Companies in the Peer Group Index are as follows: Rovi Corporation, Logitech International, DTS Inc., Dolby Laboratories, Inc., Harman International Industries, Inc., and VOXX International Corp.

The information presented above is as of December 31, 2008 through 2013. This information should not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") nor should 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 further understand the factors that may affect the comparability of the financial data presented below.

(In thousands, except per share data)	Year Ended December 31,					
	2013	2012	2011	2010	2009	
Net sales	\$529,354	\$463,090	\$468,630	\$331,780	\$317,550	
Operating income	\$32,154	\$26,202	\$26,576	\$21,301	\$21,947	
Net income	\$22,963	\$16,553	\$19,946	\$15,081	\$14,675	
Earnings per share:						
Basic	\$1.51	\$1.11	\$1.34	\$1.10	\$1.07	
Diluted	\$1.47	\$1.10	\$1.31	\$1.07	\$1.05	
Shares used in calculating earnings per share:						
Basic	15,248	14,952	14,912	13,764	13,667	
Diluted	15,601	15,110	15,213	14,106	13,971	
Cash dividend declared per common share	—	—	—	—	—	
Gross margin	28.6	% 28.8	% 27.8	% 31.3	% 32.0	%
Selling, general, administrative, research and development expenses as a % of net sales	22.5	% 23.2	% 22.1	% 24.9	% 25.1	%
Operating margin	6.1	% 5.6	% 5.7	% 6.4	% 6.9	%
Net income as a % of net sales	4.3	% 3.6	% 4.3	% 4.6	% 4.6	%
Return on average assets	5.7	% 4.4	% 5.4	% 5.0	% 6.5	%

(In thousands, except per share data)	December 31,					
	2013	2012	2011	2010	2009	
Working capital	\$158,548	\$113,488	\$84,761	\$66,101	\$127,086	
Ratio of current assets to current liabilities	2.3	2.0	1.7	1.4	3.1	
Total assets	\$423,733	\$379,324	\$369,488	\$372,533	\$233,307	
Cash and cash equivalents	\$76,174	\$44,593	\$29,372	\$54,249	\$29,016	
Stockholders' equity	\$291,270	\$250,650	\$229,989	\$211,204	\$169,730	
Book value per share <sup>(1)</sup>	\$18.55	\$16.74	\$15.55	\$14.13	\$12.40	
Ratio of liabilities to liabilities and stockholders' equity	31.3	% 33.9	% 37.8	% 43.3	% 27.3	%

<sup>(1)</sup> Book value per share is defined as stockholders' equity divided by common shares issued less treasury stock. The comparability of information for 2013, 2012 and 2011 compared to prior years is affected by the acquisition of Enson Assets Limited during the fourth quarter of 2010.

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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 remote control products, AV accessories, and software that are marketed to enhance home entertainment systems. Our customers operate in the consumer electronics market and include subscription broadcasters, OEMs, international retailers, private labels, and companies in the computing industry. We also sell integrated circuits, on which our software and IR code database, or library, is embedded, to OEMs that manufacture wireless control devices, cable converters or satellite receivers for resale in their products.

Since our beginning in 1986, we have compiled an extensive IR code library that covers over 787,600 individual device functions and approximately 6,400 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 library contains device codes that are capable of controlling virtually all IR controlled set-top boxes, televisions, audio components, DVD players, Blu-Ray players, and CD players, as well as most other remote controlled home entertainment devices and home automation control modules worldwide.

We operate as one business segment. We have twenty-three subsidiaries located in Argentina, Cayman Islands, France, Germany, 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 2013:

Net sales increased 14.3% to \$529.4 million in 2013 from \$463.1 million in 2012.

Our gross margin percentage decreased moderately from 28.8% in 2012 to 28.6% in 2013.

Operating expenses, as a percent of sales, decreased from 23.2% in 2012 to 22.5% in 2013.

Operating income increased 22.7% to \$32.2 million in 2013 from \$26.2 million in 2012, and our operating margin percentage increased to 6.1% in 2013, compared to 5.6% in 2012.

Our effective tax rate decreased from 32.8% in 2012 to 20.9% in 2013.

Our strategic business objectives for 2014 include the following:

- continue to develop industry-leading technologies and products with attractive gross margins in order to improve profitability;
- continue to increase our market share in newer product categories, such as smart devices and game consoles;
- further penetrate the growing Asian and Latin American subscription broadcasting markets;
- acquire new customers in historically strong regions;
- increase our share with existing customers; and
- continue to seek acquisitions or strategic partners that complement and strengthen our existing business.

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, allowances for sales returns and doubtful accounts, warranties, inventory valuation, our review for impairment of long-lived assets, intangible assets and goodwill, income taxes and stock-based 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 and may have a material impact on our consolidated financial position or results of operations.

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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. In addition to the accounting policies mentioned below, see "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 2" for other significant accounting policies.

### 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 a purchase order from the customer), the sales price is fixed or determinable and collectability is reasonably assured.

A provision is recorded for estimated sales returns and allowances and 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 and allowances, 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.

We accrue for discounts and rebates based on historical experience and our expectations regarding future sales to our customers. These accruals are recorded as a reduction to sales in the same period as the related revenues. Changes in such accruals may be required if future rebates and incentives differ from our estimates.

Revenue for the sale of tooling is recognized when the related tooling has been provided, customer acceptance documentation has been obtained, the sales price is fixed or determinable and collectability is reasonably assured.

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

We license our intellectual property including our patented technologies, trademarks, and database of infrared codes. When our license fees are paid on a per unit basis we record license revenue when our customers ship a product incorporating our intellectual property, persuasive evidence of an arrangement exists, the sales price is fixed or determinable, and collectability is reasonably assured. When a fixed upfront license fee is received in exchange for the delivery of a particular database of infrared codes that represents the culmination of the earnings process, we record revenues when delivery has occurred, persuasive evidence of an arrangement exists, the sales price is fixed or determinable and collectability is reasonably assured. Revenue for term license fees is recognized on a straight-line basis over the effective term of the license when we cannot reliably predict in which periods, within the term of the license, the licensee will benefit from the use of our patented inventions.

### Allowance for Doubtful Accounts

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. We also record specific provisions for individual accounts when we become aware of a customer's inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. 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.

### 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. 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.

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### Inventories

Our wireless remote control device, component part, and raw material inventories are valued at the lower of cost or market value. Cost is determined using the first-in, first-out method. We write-down our inventory for the estimated difference between cost and 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. 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 \$1.0 million.

### 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. The impairment is measured as the difference between the net book value of the asset and the asset's estimated fair value. Fair value is estimated utilizing the asset's projected discounted cash flows. In assessing fair value, we must make assumptions regarding estimated future cash flows, the discount rate and other factors.

### 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.

To evaluate whether goodwill is impaired, we conduct a two-step quantitative goodwill impairment test. In the first step 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 value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. To calculate the implied fair value of the reporting unit's goodwill, the fair value of the reporting unit is first 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 equal to the amount by which the carrying value of goodwill exceeds its implied fair value.

Determining the fair value of a reporting unit 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

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assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

### 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 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 maintain reserves for uncertain tax positions, including related interest and penalties. 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

We recognize the grant date fair value of stock-based compensation awards as expense, net of estimated forfeitures, in proportion to vesting during the requisite service period, which ranges from one to four years. Estimated forfeiture rates are based upon historical forfeitures.

We determine the fair value of restricted stock awards utilizing the average of the high and low trade prices of our Company's shares on the date they were granted.

The fair value of stock options granted to employees and directors is determined utilizing the Black-Scholes option pricing model. The assumptions utilized in the Black-Scholes model include risk-free interest rate, expected volatility, and expected life in years. The risk-free interest rate over the expected term is equal to the prevailing U.S. Treasury note rate over the same period. Expected volatility is determined utilizing historical volatility over a period of time

equal to the expected life of the stock option. Expected life is computed utilizing historical exercise patterns and post-vesting behavior. The dividend yield is assumed to be zero since we have not historically declared dividends and do not have any plans to declare dividends in the future.

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## Results of Operations

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

(In thousands)	Year Ended December 31,				
	2013		2012		2011
Net sales	100.0	%	100.0	%	100.0
Cost of sales	71.4		71.2		72.2
Gross profit	28.6		28.8		27.8
Research and development expenses	3.1		3.1		2.6
Selling, general and administrative expenses	19.4		20.1		19.5
Operating income	6.1		5.6		5.7
Interest income (expense), net	0.0		(0.0	)	(0.1
Other income (expense), net	(0.6	)	(0.3	)	(0.2
Income before income taxes	5.5		5.3		5.4
Provision for income taxes	1.2		1.7		1.1
Net income	4.3	%	3.6	%	4.3

Year Ended December 31, 2013 ("2013") Compared to Year Ended December 31, 2012 ("2012")

Net sales. Net sales for 2013 were \$529.4 million, an increase of 14.3% compared to \$463.1 million in 2012. Net sales by our business and consumer lines were as follows:

	2013		2012		
	\$ (millions)	% of total	\$ (millions)	% of total	
Net sales:					
Business	\$475.7	89.9	% \$410.9	88.7	%
Consumer	53.7	10.1	% 52.2	11.3	%
Total net sales	\$529.4	100.0	% \$463.1	100.0	%

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were 89.9% of net sales in 2013 compared to 88.7% in 2012. Net sales in our Business lines in 2013 increased by 15.8% to \$475.7 million from \$410.9 million in 2012. The increase was driven primarily by strong demand and increased market share in North American subscription broadcasting and Latin American subscription broadcasting, particularly in Brazil, as well as growth in net sales to consumer electronic companies in Asia.

Net sales in our Consumer lines (One For All® retail and private label) were 10.1% of net sales in 2013 compared to 11.3% in 2012. Net sales in our Consumer lines in 2013 increased by 2.9% to \$53.7 million from \$52.2 million in 2012. International retail sales increased 3.8% from \$47.8 million in 2012 to \$49.6 million in 2013 due primarily to increased sales in the U.K, Australia and Latin America.

Gross profit. Gross profit in 2013 was \$151.5 million compared to \$133.4 million in 2012. Gross profit as a percent of sales remained relatively consistent at 28.6% in 2013 compared to 28.8% in 2012. Factors that improved our gross margin percentage throughout 2013 include increasing the number of units produced internally versus at third-party manufacturers as well as increased license revenues, primarily in the fourth quarter, relating to the smart device channel. These improvements in our gross margin percentage were offset primarily by the strengthening of the Chinese Yuan Renminbi versus the U.S. Dollar.

Research and development ("R&D") expenses. R&D expenses increased 16.2% to \$16.4 million in 2013 from \$14.2 million in 2012. This increase was in line with our strategic initiatives and was primarily driven by additional R&D efforts dedicated to developing new product offerings for new and existing product categories.

Selling, general and administrative ("SG&A") expenses. SG&A expenses increased 10.5% to \$102.9 million in 2013 from \$93.1 million in 2012. This increase was driven primarily by increased payroll costs associated with hiring key personnel in global engineering and in our Asian operations as well as restructuring costs associated with personnel changes primarily in our European



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operations, increased incentive compensation costs, and increased freight and delivery costs associated with higher sales volumes in 2013. These increases were partially offset by a reduction in litigation costs associated with protecting our intellectual property.

Interest income (expense), net. Net interest income was \$0.1 million in 2013 compared net interest expense of \$0.2 million in 2012. This change was driven primarily by lower interest expense in the current period due to decreased credit needs.

Other income (expense), net. Net other expense was \$3.2 million in 2013 compared to net other expense of \$1.4 million in 2012. This increase was driven primarily by increased foreign currency losses associated with fluctuations in foreign currency rates related to the Chinese Yuan Renminbi, Argentinian Peso and Brazilian Real.

Income tax expense. Income tax expense was \$6.1 million in 2013 compared to \$8.1 million in 2012 and our effective tax rate was 20.9% in 2013 compared to 32.8% in 2012. The decrease in our effective tax rate was due primarily to the valuation allowance we recorded in 2012 against our deferred tax assets related to California research and experimentation credits and a shift of income from higher tax rate jurisdictions to lower tax rate jurisdictions in 2013 driven largely by a tax benefit on certain income earned in Hong Kong. Partially offsetting these benefits was the recording of \$0.4 million of additional tax reserves in the second quarter of 2013 resulting from a tax audit in Hong Kong for years preceding our 2010 acquisition of Enson Assets Limited and the reversal of \$0.5 million of unrecognized tax benefits in 2012 which were originally recorded in 2007 through 2011.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011 ("2011")

Net sales. Net sales for 2012 were \$463.1 million, a decrease of 1.2% compared to \$468.6 million in 2011. Net sales by our business and consumer lines were as follows:

	2012		2011		
	\$ (millions)	% of total	\$ (millions)	% of total	
Net sales:					
Business	\$410.9	88.7	% \$421.4	89.9	%
Consumer	52.2	11.3	% 47.2	10.1	%
Total net sales	\$463.1	100.0	% \$468.6	100.0	%

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were 88.7% of net sales in 2012 compared to 89.9% in 2011. Net sales in our Business lines in 2012 decreased by 2.5% to \$410.9 million from \$421.4 million in 2011. This decrease was largely due to lower sales to consumer electronics companies, which resulted from the adverse effect on television sales of the prolonged sluggish global economy. Partially offsetting the decrease in sales to consumer electronics companies was an increase in net sales within subscription broadcasting. Net sales in subscription broadcasting remained strong in North America and grew significantly, on a percentage basis, in Latin America, specifically Brazil.

Net sales in our Consumer lines (One For All® retail and private label) were 11.3% of net sales in 2012 compared to 10.1% in 2011. Net sales in our Consumer lines in 2012 increased by 10.6% to \$52.2 million from \$47.2 million in 2011. International retail sales increased 10.1% from \$43.4 million in 2011 to \$47.8 million in 2012 due primarily to increased sales in the U.K. and Latin America. In addition, North American retail sales increased \$1.2 million, from \$3.1 million to \$4.3 million.

Gross profit. Gross profit in 2012 was \$133.4 million compared to \$130.1 million in 2011. Gross profit as a percent of sales increased to 28.8% in 2012 from 27.8% in 2011. This improvement was primarily due to an increase in units produced internally

versus units produced by third-party manufacturers. Gross profit in 2012 was also positively affected by us entering into a licensing agreement with a customer in the gaming industry, as well as the signing of a long-term, confidential settlement and license agreement with Logitech. Compared to 2011, this favorability was partially offset by pricing pressure from customers.

Research and development expenses. R&D expenses increased 15.4% to \$14.2 million in 2012 from \$12.3 million in 2011. The increase was due to additional labor dedicated to general R&D activities in an effort to continue to develop new products and technologies.

Selling, general and administrative expenses. SG&A expenses increased 2.0% to \$93.1 million in 2012 from \$91.2 million in 2011. This increase was driven primarily by increased incentive compensation costs as well as increased legal expenses as a result of litigation costs related to protecting our intellectual property. Partially offsetting these expense increases was a favorable currency effect due primarily to the Euro weakening compared to the U.S. Dollar.

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Interest income (expense), net. Net interest expense was \$0.2 million in 2012 compared to \$0.3 million in 2011. The decrease in interest expense was due to lower credit needs during 2012, primarily as a result of positive operating cash flows which allowed for the paydown of debt associated with the 2010 acquisition of Enson Assets Limited.

Other income (expense), net. Net other expense was \$1.4 million in 2012 compared to net other expense of \$1.1 million in 2011. This increase was driven by a higher amount of foreign currency losses in 2012, driven by fluctuations in the foreign currency rates relating to the Argentinian Peso, Brazilian Real, Chinese Yuan Renminbi and Euro.

Income tax expense. Income tax expense was \$8.1 million in 2012 compared to \$5.3 million in 2011 and our effective tax rate was 32.8% in 2012 compared to 20.9% in 2011. The increase in our effective tax rate was due primarily to a \$3.9 million (\$2.6 million net of federal benefit) valuation allowance that we recorded in 2012 against our deferred tax assets related to California research and experimentation credits. At December 31, 2012, we believed it was more likely than not that these deferred tax assets would not be realized. In addition, as the result of a tax law change in China, approximately \$0.6 million of deferred tax assets were no longer valid resulting in their write-down.

#### Liquidity and Capital Resources Sources and Uses of Cash

(In thousands)	Year ended December 31, 2013	Increase (Decrease)	Year ended December 31, 2012	Increase (Decrease)	Year ended December 31, 2011
Cash provided by operating activities	\$30,694	\$(12,849 )	\$43,543	\$28,743	\$14,800
Cash used for investing activities	(11,674 )	(71 )	(11,603 )	3,091	(14,694 )
Cash (used for) provided by financing activities	10,038	27,616	(17,578 )	8,691	(26,269 )
Effect of exchange rate changes on cash	2,523	1,664	859	(427 )	1,286
			December 31, 2013	Increase (Decrease)	December 31, 2012
Cash and cash equivalents			\$76,174	\$31,581	\$44,593
Working capital			158,548	45,060	113,488

Net cash provided by operating activities decreased \$12.9 million in 2013 when compared to 2012, driven largely by increased working capital needs associated with inventory as we increased inventory levels in 2013 to support a higher level of expected sales. In addition, although sales increased by 14.3% in 2013 compared to 2012, accounts receivable increased by only 4.8% as days sales outstanding improved from 69 days for the quarter ended December 31, 2012 to 63 days for the quarter ended December 31, 2013.

Net cash provided by operating activities increased \$28.7 million in 2012 when compared to 2011, driven largely by a \$31.0 million improvement in cash flows associated with inventories. In 2011, there were two items that resulted in a permanent increase to our inventory levels. First, as a result of labor issues we previously experienced resulting from the Chinese New Year, as well as the fact that both of our factories located in China shut down for a week during the Chinese New Year holiday period, we made a conscious effort to increase our inventory levels during the latter half of the year in order to prevent supply issues. Second, in the second quarter of 2011, we altered our shipping terms with a significant customer that resulted in us holding title to inventories until shipments are received by this particular customer. The aforementioned items had an adverse effect on cash flows in 2011; however, for 2012, the higher inventory levels were already in the base year. Working capital changes in 2012 also included a \$12.5 million increase

in cash flows related to accounts payable and accrued expenses that was due primarily to payment timing related to fourth quarter inventory purchases and increased incentive compensation accruals, offset by a \$12.1 million decrease in cash flows associated with accounts receivable that was driven primarily by year-end collection timing.

Net cash used for investing activities during 2013 was \$11.7 million compared to \$11.6 million and \$14.7 million of net cash used during 2012 and 2011, respectively. During 2013, 2012 and 2011, cash used for investing activities consisted of our investments in property, plant, and equipment as well as internally developed patents.

Net cash provided by financing activities was \$10.0 million during 2013 compared to net cash used for financing activities of \$17.6 million during 2012 and net cash used for financing activities of \$26.3 million during 2011. During 2012, we made net debt payments of \$16.4 million compared to \$18.6 million in 2011. Proceeds from stock option exercises were \$12.4 million during



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2013 compared to proceeds of \$2.2 million and \$1.7 million during 2012 and 2011, respectively. In addition, we purchased 153,115 shares of our common stock at a cost of \$3.6 million during 2013, compared to 200,847 and 456,964 shares at a cost of \$3.5 million and \$9.8 million during 2012 and 2011, 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.

From time to time, our Board of Directors authorizes management to repurchase 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, 2013, we had 933,456 shares available for repurchase under the Board's authorizations.

**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.

(In thousands)	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Contractual obligations:					
Operating lease obligations	\$12,705	\$2,699	\$3,920	\$2,663	\$3,423
Capital lease obligations	73	20	40	13	—
Purchase obligations <sup>(1)</sup>	323	323	—	—	—
Total contractual obligations	\$13,101	\$3,042	\$3,960	\$2,676	\$3,423

<sup>(1)</sup> Purchase obligations consist of 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. 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. We believe our current cash balances and anticipated cash flow to be generated from operations will be sufficient to cover cash outlays expected during 2014; however, because our cash is located in various jurisdictions throughout the world, we may at times need to borrow from our revolving line of credit until we are able to transfer cash among our various entities.

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,		
	2013	2012	2011
Cash and cash equivalents	\$76,174	\$44,593	\$29,372
Total debt	—	—	16,400
Available borrowing resources	54,987	55,000	18,000

Our cash balances are held in numerous locations throughout the world. 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, 2013, we had \$30.1 million, \$34.6 million, \$7.2 million and \$4.3 million of cash and cash equivalents in the United States, Asia, Europe, and South America, respectively. We attempt to mitigate our exposure to liquidity, credit and other relevant risks by placing our cash and cash equivalents with financial institutions we believe are high quality.

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On October 2, 2012, we entered into an Amended and Restated Credit Agreement ("Amended Credit Agreement") with U.S. Bank National Association ("U.S. Bank"). Under the Amended Credit Agreement, the existing secured revolving credit line ("Credit Line") was increased from \$20.0 million to \$55.0 million and the expiration date was extended from November 1, 2012 to November 1, 2014. The Amended Credit Agreement required that the Credit Line be used to pay off the remaining outstanding balance of the existing term loan with U.S. Bank. The Credit Line may be used for working capital and other general corporate purposes including acquisitions, share repurchases and capital expenditures. Amounts available for borrowing under the Credit Line are reduced by the balance of any outstanding letters of credit, of which there were \$13 thousand at December 31, 2013.

All obligations under the Credit Line are secured by substantially all of our U.S. personal property and tangible and intangible assets as well as 65% of our ownership interest in Enson Assets Limited, our wholly-owned subsidiary which controls our manufacturing factories in the PRC.

Under the Amended Credit Agreement, we may elect to pay interest on the Credit Line based on LIBOR plus an applicable margin (varying from 1.25% to 1.75%) or base rate (based on the prime rate of U.S. Bank or as otherwise specified in the Amended Credit Agreement) plus an applicable margin (varying from -0.25% to +0.25%). The applicable margins are calculated quarterly and vary based on our leverage ratio as set forth in the Amended Credit Agreement. There are no commitment fees or unused line fees under the Amended Credit Agreement.

The Amended Credit Agreement includes financial covenants requiring a minimum fixed charge coverage ratio, a maximum leverage ratio and minimum liquidity levels. In addition, the Amended Credit Agreement also contains other customary affirmative and negative covenants and events of default. As of December 31, 2013, we were in compliance with the covenants and conditions of the Amended Credit Agreement.

### Off Balance Sheet Arrangements

We do not participate in any off balance sheet arrangements.

### Recent Accounting Pronouncements

See "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 2" for a discussion of recent 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. Although at December 31, 2013, we had no outstanding borrowings under our revolving line of credit, from time to time we need to borrow amounts for working capital and other liquidity needs. Under the Amended Credit Agreement that became effective on October 2, 2012, we may elect to pay interest on outstanding borrowings on our Credit Line based on LIBOR or a base rate (based on the prime rate of U.S. Bank) plus an applicable margin as defined in the Amended Credit Agreement. A 100 basis point increase in interest rates would have had an insignificant effect on reported net income for the year ended December 31, 2013. 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, 2013 we had wholly owned subsidiaries in Argentina, Brazil, Cayman Islands, France, Germany, Hong Kong, India, Italy, the Netherlands, the PRC, 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 during 2013 were the Chinese Yuan Renminbi, Euro, British Pound, Argentinian Peso, Brazilian Real, Indian Rupee, and Singapore Dollar. Our most significant foreign currency exposure is to the Chinese Yuan Renminbi as this is the functional currency of our China-based factories where the majority of our products are manufactured. If the Chinese Yuan Renminbi were to strengthen against the U.S. Dollar, our manufacturing costs would increase. For

most other currencies, we are a net receiver of the foreign currency and therefore benefit from a weaker U.S.

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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, 2013, we believe that movements in foreign currency rates may have a material effect on our financial position. We estimate that if the exchange rates for the Chinese Yuan Renminbi, Euro, British Pound, Argentinian Peso, Brazilian Real, Indian Rupee, and Singapore Dollar relative to the U.S. Dollar fluctuate 10% from December 31, 2013, net income in the first quarter of 2014 would fluctuate by approximately \$5.5 million.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
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All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Universal Electronics Inc.

We have audited the accompanying consolidated balance sheets of Universal Electronics Inc. (a Delaware corporation) (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. 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, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, 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), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 12, 2014 expressed an unqualified opinion.

/s/ GRANT THORNTON, LLP

Irvine, California

March 12, 2014

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

	December 31, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$76,174	\$44,593
Accounts receivable, net	95,408	91,048
Inventories, net	96,309	84,381
Prepaid expenses and other current assets	4,395	3,661
Income tax receivable	13	270
Deferred income taxes	6,167	5,210
Total current assets	278,466	229,163
Property, plant, and equipment, net	75,570	77,706
Goodwill	31,000	30,890
Intangible assets, net	26,963	29,835
Other assets	5,279	5,361
Deferred income taxes		