

The image features a dark, textured background on the left side, transitioning into a white background on the right. A prominent red chevron shape points from the left towards the right, overlapping the boundary between the two backgrounds. The word "REDEFINING" is centered in the white area.

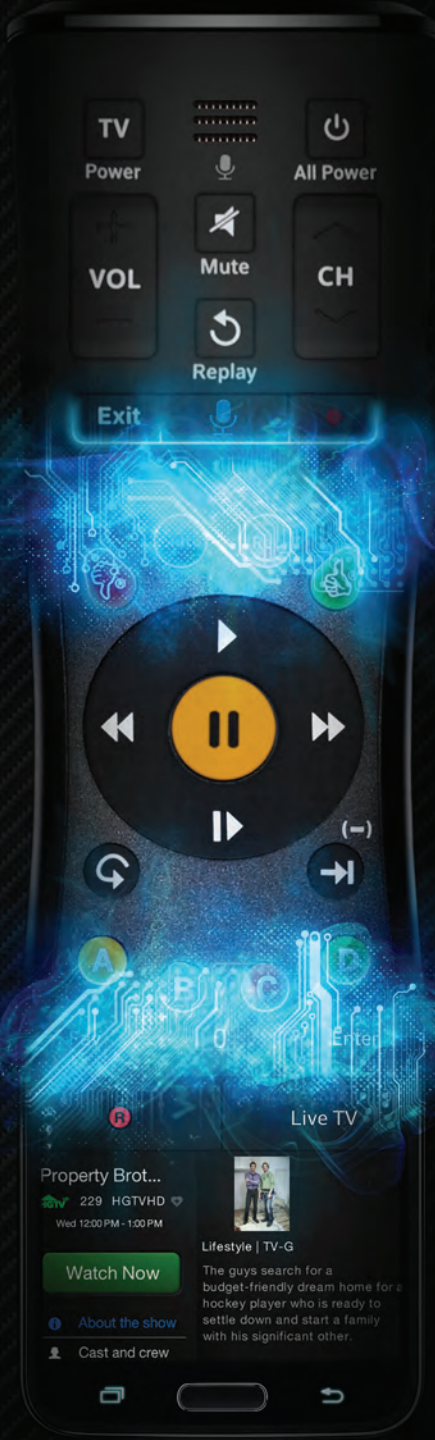
REDEFINING

REDEFINING CONTROL

Home entertainment content is rapidly expanding. The traditional remote control, one of the most iconic and frequently used electronics appliances in the home, continues to be the mainstay of any home entertainment system.

The rise of new interactive menu screens; the proliferation of content options; and the emerging connected devices are creating the demand for a simpler, smarter entertainment control solution. Since our founding in 1986, UEI has been actively engaged in this challenge. UEI has introduced many industry-leading features such as “activity” or macro keys, control code downloading, and automated device setup. These features have shipped in hundreds of millions of control solutions worldwide and drive today’s powerful content delivery platforms.

UEI is using its experience, leadership, and passion to make intelligent control a standard in any smart home system. Whether it is a mobile device app, used as a personalized content discovery remote, a traditional button remote, or a connected voice remote, UEI is redefining control and delivering exceptional entertainment control across all platforms.

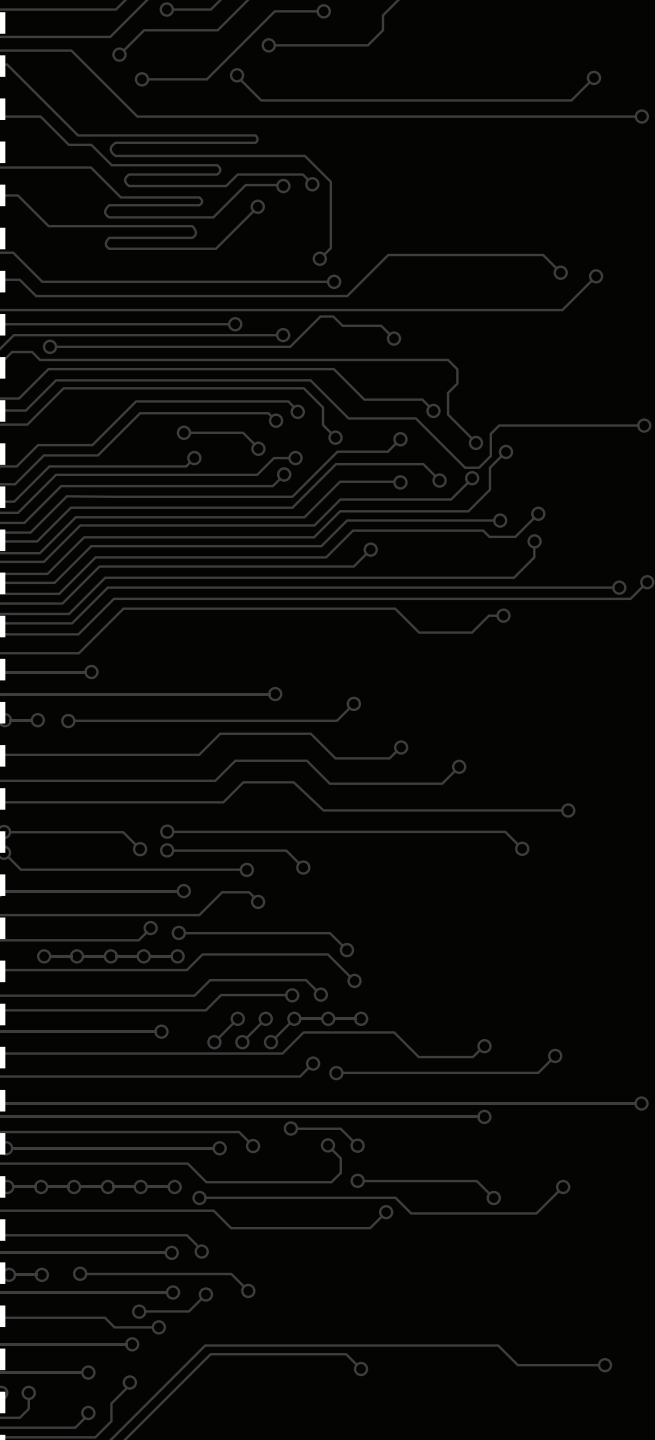


REDEFINING

CONTROL

UNIVERSAL
ELECTRONICS

2014
ANNUAL
REPORT



2014 ANNUAL REPORT



REDEFINING CONTROL THROUGH EMBEDDED SOFTWARE AND SERVICES





UEI embedded software, hardware, and cloud services provide the intelligence to seamlessly control and interact with an ever expanding list of home entertainment electronics. UEI's QuickSet® software and cloud services enable intelligent setup in home entertainment devices that require no setup and deliver one-touch control. QuickSet 3.0 represents the latest in control technology that intelligently addresses mode confusion and input switching, virtually eliminating two of the most frustrating challenges in home entertainment. QuickSet is currently deployed in over 150 million devices around the world including set-top boxes, connected TVs, media devices, game consoles, smartphones, tablets and wearables.



REDEFINING CONTROL THROUGH THE USER EXPERIENCE



Creating the ideal control experience is a careful blend of using the right technology, wrapped in an aesthetic design, which seamlessly interacts with an engaging user interface. With over 300 patents issued and pending, UEI embraces this important balance by creating innovative product concepts and use cases that redefine control.

Every year, UEI pushes the boundaries of what a remote control is and what a remote control is able to do by applying emerging technologies to solve everyday consumer frustrations in entertainment control. In the process, UEI continues to earn its status as the innovative leader with the largest and most comprehensive intellectual property portfolio in the industry.





REDEFINING CONTROL THROUGH CONNECTED DEVICES





As the number of connected devices in the home grows, the expectations for remotes to become less isolated and more connected become real. Exponential growth in content and complexity of menus have demanded new and better ways for consumers to connect, control and interact with their information and entertainment. With one of the broadest technology portfolios in the industry, UEI has led the way in deploying tens of millions of control solutions that feature voice, touch and motion control as well as the advanced connectivity solutions featuring Zigbee® RF4CE, Bluetooth® Smart, and Wi-Fi® communication protocols.



NORTH AMERICA

SAN MATEO, CALIFORNIA, USA
ADVANCED ENGINEERING CENTER

TWINSBURG, OHIO, USA
NORTH AMERICAN CALL CENTER

SANTA ANA, CALIFORNIA, USA
CORPORATE HEADQUARTERS
INNOVATION & DESIGN CENTER

MANAUS, BRAZIL
MANUFACTURING AND OPERATIONS

SÃO PAULO, BRAZIL
REGIONAL SALES OFFICE

LATIN AMERICA

REDEFINING CONTROL ON A GLOBAL LEVEL

UEI has a true passion for innovation and technology. Those passions resonate worldwide throughout all of UEI's locations with talented innovators, engineers and designers. Team members are focused on improving the user experience while solving industry and consumer challenges. To efficiently complete those tasks, UEI's strategic locations span the globe, increasing market share while strengthening its position as a trusted partner in wireless control and technology.

DIRECTV Sagem Charter
Motorola Audiovox Nintendo Bose Yes HD
UPC Telenet Auchan Pace Yamaha
Shaw Communications Sky Brasil JVC
Daikin Vestel Philips Dixons El Corte Ingles
Sky PerfectTV! Digiturk

EUROPE

ENSCHEDÉ, THE NETHERLANDS
EUROPEAN AND RETAIL HEADQUARTERS

YANGZHOU, CHINA
MANUFACTURING

TOKYO, JAPAN
REGIONAL SALES OFFICE

QINZHOU, CHINA
MANUFACTURING

PANYU, CHINA
MANUFACTURING AND ENGINEERING

BANGALORE, INDIA
SOFTWARE DEVELOPMENT CENTER

HONG KONG, CHINA
ASIAN HEADQUARTERS
GLOBAL LOGISTICS HUB

ASIA PACIFIC

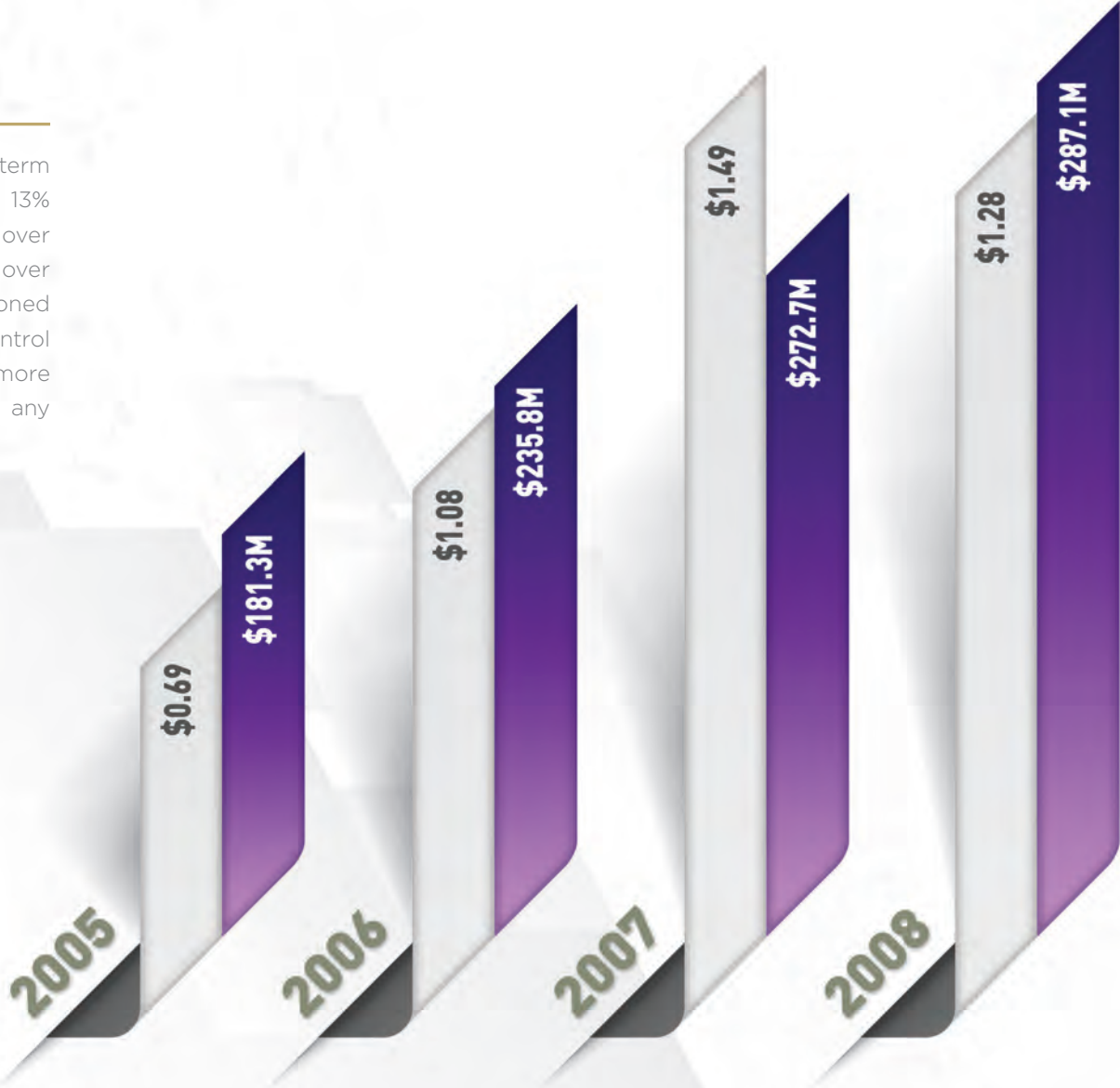
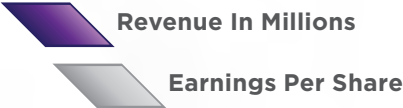
AFRICA

AUSTRALIA

Echostar Technologies
 Time Warner Communications Virgin Media Sky Deutschland
Comcast Sky Italia Argos LG Arris Carrefour PCCW Talk Talk
 Cablevision **Microsoft** Humax Ziggo Denon Samsung Airtel Cisco Sony
 Cox Communications BSkyB Mediacom Reliance Telefonica Pioneer Media Market
 Toshiba Roku Onkyo Foxtel Multichoice McIntosh Vizio
 Best Buy Netgem TV Cabo Canal+ Lodgenet
Embratel

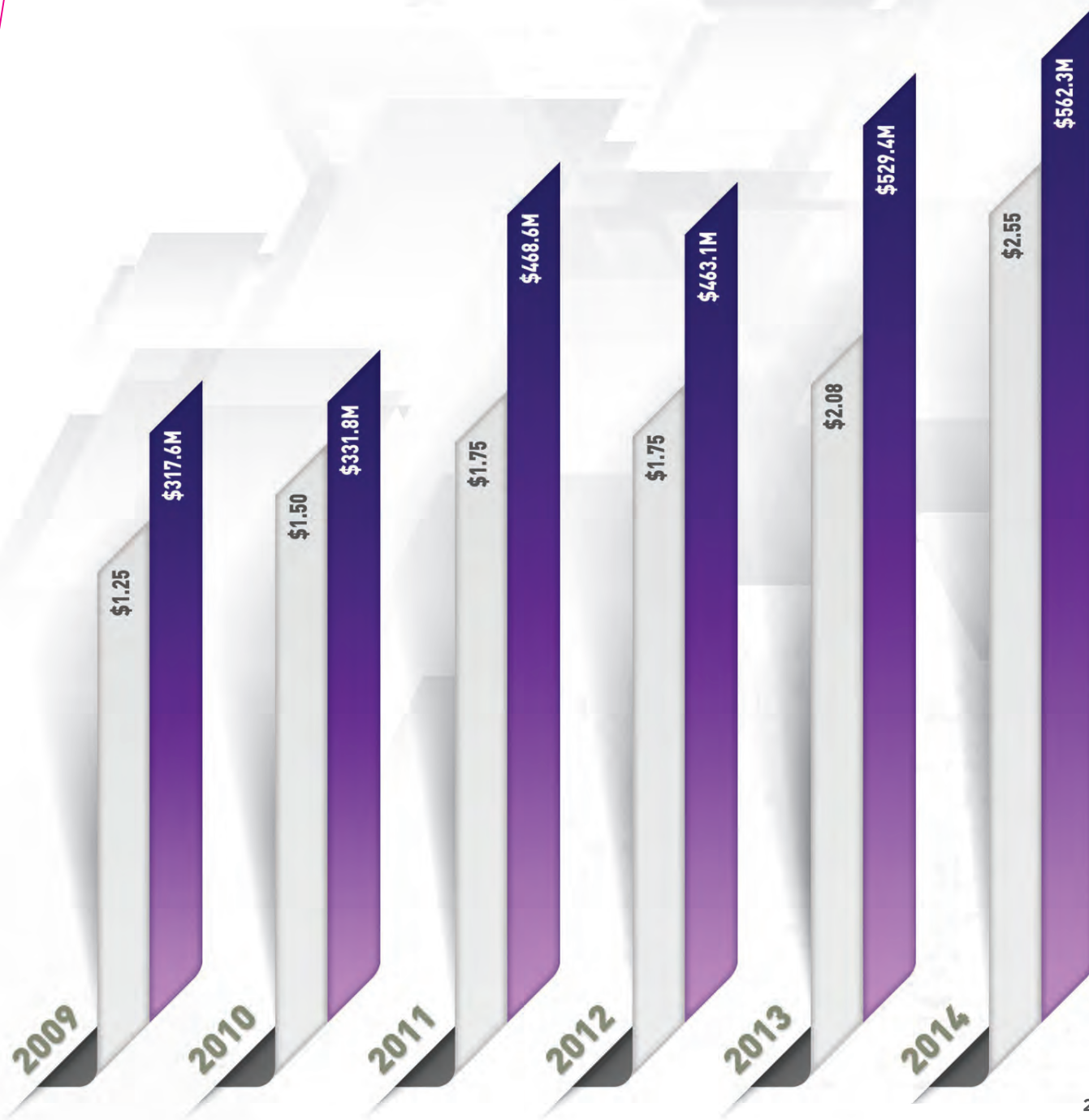
REDEFINING SUCCESS WITH FINANCIAL PERFORMANCE

UEI's 2014 financial results continue a long-term record of solid performance, reflected by a 13% compound annual growth rate in sales and an over 15% compound annual growth rate in earnings* over the last decade. UEI continues to be positioned for future success by providing innovative control products and solutions that provide an easier, more intuitive control interface for the consumer, on any form factor - across all markets.



*Adjusted pro forma metrics (non GAAP)

The bar graphic displayed is for illustration purposes. The actual bar heights may not be an exact representation of their numeric values.



Right side of graph scaled down to show in PDF only.



DEAR STOCKHOLDERS:

I am pleased that 2014 closed out the most successful year in UEI history making it our 17th straight year of profitability. We have continued our company-wide growth by focusing on maintaining and aggressively pursuing new market opportunities unfolding with smart device connectivity and more advanced intelligence in home entertainment devices.

The best testament to the innovation we develop here at UEI is the customers who work with us to deploy it. At the heart of the consumer entertainment control experience is a growing need to change how consumers interact with, and enjoy digital media content. Our customers are looking for control solutions that can make this evolving experience simpler and more satisfying. Industry leaders, and long-time customers, such as DIRECTV, who were the first to launch QuickSet® enabled set-top boxes, and COMCAST, who recently announced a UEI-designed Xfinity Voice Remote, turn to us for innovative and dependable control solutions to meet their end-user needs. The list of leading home entertainment companies who are working with UEI on their industry-leading solutions along with DIRECTV and COMCAST includes names such as Samsung, LG, Sony, Panasonic, Echostar, SKY, UPC, Virgin Media, Microsoft and many, many others. We have solidified our reputation as THE provider of choice in wireless control technology.

The knowledge and experience we have gained being in the entertainment control space for over 27 years has earned us a unique position in the market. Innovations developed over decades of research are finding new applications and new advances in connectivity. While smart devices continue to create new and exciting possibilities for next generation entertainment control, the new home entertainment “ecosystem” allows communication and control possibilities never before possible without the addition of complex equipment and expert integration that is expensive to install and costly to maintain. Intelligent software

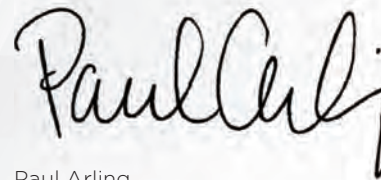
like QuickSet, with our Control Plus™ technology, has enabled us to put smart yet simple entertainment setup and control features long enjoyed by the ultra-rich into the hands of the everyday consumer. QuickSet 3.0 brings simple plug and play home entertainment control to our living rooms. With over 150 million connected devices already running QuickSet, we are well positioned to bring our next generation platform to the masses.

The addition of smartphones and tablets to home entertainment has expanded the options for control and content discovery. We continue to leverage and expand our expertise in entertainment control to open new opportunities in second screen devices. We recently added new customers in the emerging China mobile market. According to IDC, China's smartphone market has tripled in size over the last three years to around 350 million units, making the country the world's largest smartphone market. We launched QuickSet software and services to several flagship smartphone models on leading Chinese brands such as Huawei, Oppo, and ZTE.

We remain diligent in providing the best consumer experience when it comes to home entertainment control and enjoyment. Our investments in technology, innovation, and people help us stretch the boundaries of what is possible. Our commitment to our investors, customers, and partners will allow us to continue to expand our role in the home entertainment ecosystem and extend a long tradition of success at UEI.

Whether the need is for traditional remotes, advanced voice, motion, and pointing controllers; or control and interaction through companion devices like smartphones and tablets; we have the expertise, intellectual curiosity and vision to redefine what a remote control is and what a remote control is able to do. I would like to recognize our team for delivering another year of impressive results, and I want to thank you, our stockholders for your continued support of UEI. We have established a proven track record of successful innovation by proactively developing and patenting technology that incorporates ease-of-use and advanced functionality. Our position in the industry continues to be stronger than ever, and we are confident that UEI will be at the forefront of providing the control solutions that address consumers' desires to make their home entertainment environment easier to access and control.

Sincerely,

A handwritten signature in black ink that reads "Paul Arling". The signature is written in a cursive, flowing style.

Paul Arling
Chairman and CEO

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Forward-Looking Statements

This Annual Report 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 our 2014 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") as well as those described in our SEC filings subsequent to this report.

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. 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 SEC. The SEC maintains a website at 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;
- integrated circuits, on which our software and universal device control database is embedded, sold primarily to OEMs, subscription broadcasting providers, and private label customers;
- 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 People's Republic of China ("PRC") has enhanced our ability to compete in the OEM and subscription broadcasting markets, particularly in Asia. In addition, in 2010 we opened a 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, 2014, 2013, and 2012, our sales to DIRECTV and its sub-contractors collectively accounted for 10.4%, 15.6%, and 16.9% of our net sales, respectively.

Our *One For All*[®] brand name remote controls and accessories sold within the international retail markets accounted for 9.2%, 9.4%, and 10.3% of our total net sales for the years ended December 31, 2014, 2013, and 2012, respectively.

Financial information relating to our international operations for the years ended December 31, 2014, 2013, and 2012 is included in "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 2014 we had 316 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 863,000 individual device functions and approximately 6,900 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 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. QuickSet® is a software application that is currently embedded in millions of devices globally. QuickSet may be embedded in an AV device, set-top box, or other host device to enable universal remote control. QuickSet enables universal remote control set-up using automated and guided on-screen instructions and a wireless two-way communication link between the remote and the 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. QuickSet utilizes data transmitted over HDMI or IP networks 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 quickly and easily set up their remotes to control multiple devices. Recently added features in QuickSet address common consumer challenges in universal device control, such as mode confusion and input switching. With QuickSet consumers switch easily between activities and reliably view their chosen content source with a single touch. QuickSet handles the device-specific control requirements. Licensees of QuickSet include service providers such as DIRECTV and Echostar Technologies and leading game console manufacturer Microsoft on their Xbox One game 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. Smart devices that license UEI's solutions include Samsung smart TV's, tablets and Galaxy smartphones, as well as LG smartphones.

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, 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.

Our twenty-two international subsidiaries are the following:

- C.G. Asia Ltd., established in the British Virgin Islands;
- C.G. Development Ltd., established in Hong Kong;
- C.G. Group Ltd., established in the British Virgin Islands;
- C.G. Timepiece Ltd., established in Hong Kong;
- Enson Assets Ltd., established in the British Virgin Islands;
- Gemstar Polyfirst Ltd., established in Hong Kong;
- Gemstar Technology (China) Co. Ltd., established in the PRC;
- Gemstar Technology (Qinzhou) Co. Ltd., established in the PRC;
- Gemstar Technology (Yangzhou) Co. Ltd., established in the PRC;
- One For All Argentina S.R.L., established in Argentina;
- One For All France S.A.S., established in France;
- 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;
- UE Singapore Pte. Ltd., established in Singapore;
- UEI Brasil Controles Remotos Ltda., established in Brazil;
- UEI Cayman Inc., established in the Cayman Islands;
- UEI Electronics Pte. Ltd., established in India;
- UEI Hong Kong Pte. Ltd. established in Hong Kong;
- Universal Electronics B.V., established in the Netherlands;
- Universal Electronics Italia S.R.L. established in Italy;
- Universal Electronics Trading Co. Ltd., established in the PRC.

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 2014, Maxim Integrated Products International Limited provided 10.7% of our total inventory purchases. In 2013 and 2012, no single supplier provided more than 10% of our total inventory purchases.

Even though we operate three factories in the PRC and one assembly plant in Brazil, we continue to evaluate additional contract manufacturers and sources of supply. During 2014, 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 2015.

See "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, Home Control Singapore PTE, Ltd. (formerly Philips Consumer Electronics), SMK, and Universal Remote Control. In the international retail and private label markets for wireless controls we compete with Logitech, Home Control Singapore PTE, Ltd., 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 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 2014, our engineering efforts focused on the following:

- broadening our product portfolio;
- launching new embedded software solutions designed to simplify set-up and control features;
- modifying existing products and technologies to improve features and lower costs;
- formulating measures to protect our proprietary technology and general know-how;
- improving our control solutions software; and
- updating our library of device codes to include codes for new features and devices introduced worldwide.

During 2014, our advanced engineering efforts focused on further developing our existing products, services and technologies. We released software updates to our embedded 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 2014.

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):	2014	2013	2012
Research and development	\$ 17.0	\$ 16.4	\$ 14.2
Engineering ⁽¹⁾	9.8	8.7	8.6
Total engineering, research and development	<u>\$ 26.8</u>	<u>\$ 25.1</u>	<u>\$ 22.8</u>

⁽¹⁾ 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, 2014, 2013 and 2012, the amounts incurred in complying with federal, state and local statutes and regulations pertaining to environmental standards and occupational safety and health laws and regulations did not materially affect our earnings or financial condition. However, future events, such as changes in existing laws and regulations or enforcement policies, may give rise to additional compliance costs that may have a material adverse effect upon our capital expenditures, earnings or financial condition.

Employees

At December 31, 2014, we employed 1,988 employees, of which 448 worked in engineering and research and development, 85 in sales and marketing, 88 in consumer service and support, 1,135 in operations and warehousing and 232 in executive and administrative functions. In addition, our factories in the PRC and our Asian operations employed an additional 7,105 staff contracted through agency agreements.

Labor unions represent approximately 10.7% of our 1,988 employees. These unionized workers, employed within Manaus, Brazil, are represented under contract with the Sindicato dos Trabalhadores nas Industrias Metalurgicas, Mecanicas e de Materiais Eletricos 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, 2014, 2013 and 2012 is incorporated by reference to "FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 15".

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 our 2014 Annual Report on 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

We manufacture a majority of our products in our factories in the PRC. Additionally, many of our contract manufacturers are located in the PRC. Doing business in the PRC carries a number of risks including the following:

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.

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 managed band against a basket of certain foreign currencies. This policy, which was initiated during 2005, has resulted in a 30.8% appreciation of the Chinese Yuan Renminbi against the U.S. Dollar through December 31, 2014. While the international reaction to the Chinese Yuan Renminbi revaluation has been positive, there remains 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, 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 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, in locations where we own, manage or operate our business;
- currency fluctuations affecting gross margins, particularly in the Argentinian Peso, Brazilian Real, British Pound, Chinese Yuan Renminbi, Euro, 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;
- ability 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;
- 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.

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 55.2%, 53.0% and 54.5% of our total consolidated net sales in 2014, 2013 and 2012, respectively. We expect that the international share of our total revenues will continue to make up a significant part of our current business and future strategic plans. As a result, we are increasingly exposed to the challenges and risks of doing business outside the United States, which could reduce our revenues or profits, increase our costs, result in significant liabilities or sanctions, or otherwise disrupt our business. These challenges include: (1) compliance with complex and changing laws, regulations and policies of governments that may impact our operations, such as foreign ownership restrictions, import and export controls, and trade restrictions; (2) compliance with U.S. and foreign laws that affect the activities of companies abroad, such as anti-corruption laws, competition laws, currency regulations, and laws affecting dealings with certain nations; (3) limitations on our ability to repatriate non-U.S. earnings in a tax effective manner; (4) the difficulties involved in managing an organization doing business in many different countries; (5) uncertainties as to the enforceability of contract and intellectual property rights under local laws; (6) rapid changes in government policy, political or civil unrest in the Middle East and elsewhere, acts of terrorism, or the threat of international boycotts or U.S. anti-boycott legislation; and (7) currency exchange rate fluctuations.

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.

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.

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.

Dependence upon Key Suppliers

Most of the components used in our products are available from multiple sources. However, we purchase integrated circuits, used principally in our wireless control products, from a small number of key suppliers. To reduce our dependence on our integrated circuit 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.

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.

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 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.

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.

Risks Related to Adverse Changes in General Business and Economic Conditions

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. Any such changes 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 shown signs of stabilization and modest improvement from the recent global economic downturn, the recovery has been erratic. 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, an economic downturn could result in insolvencies for our customers, which may adversely impact our financial results.

Potential impact on trade receivables

Credit market conditions may slow our collection efforts as customers experience increased difficulty in obtaining requisite financing, leading to higher than normal accounts receivable balances and longer DSOs. 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 a significant decrease in available credit. 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 an economic downturn, 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.

Potential Fluctuations in Quarterly Results

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

In addition, we may experience significant fluctuations in future quarterly operating results that may be caused by many other factors, including demand for our products, introduction or enhancement of products by us and our competitors, the loss or acquisition of any significant customers, market acceptance of new products, price reductions by us or our competitors, mix of distribution channels through which our products are sold, product or supply constraints, level of product returns, mix

of customers and products sold, component pricing, mix of international and domestic revenues, foreign currency exchange rate fluctuations and general economic conditions. In addition, as a strategic response to changes in the competitive environment, we may from time to time make certain pricing or marketing decisions or acquisitions that may have a material adverse effect on our business, results of operations or financial condition. As a result, we believe period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as an indication of future performance.

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.

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 may 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.

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, 2012 to March 3, 2015, the trading price of our common stock has ranged from a low of \$11.40 per share to a high of \$66.75 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 programs 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.

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, 2014, 2013 and 2012, we had sales to DIRECTV and its sub-contractors, that when combined, 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 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.

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.

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 continued economic challenges, 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.

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.

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:

- 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;
- new contracts with new and existing customers and new market penetrations;
- 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 current global and regional economic conditions.

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.

Cybersecurity Issues: Failure to Maintain the Integrity of and Protect Internal or Customer Data May Result in Faulty Business Decisions, Operational Inefficiencies, Damage to our 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 customer product servicing, human resources outsourcing, website hosting, and various forms of electronic communications. We and third parties who provide services to us 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 information, security and privacy requirements imposed by governmental regulation is also increasingly demanding, in both the United States and other jurisdictions where we operate. Our systems and those of our service providers may be unable to satisfy these changing requirements and employee and customer expectations, or may require significant additional investments or time in order to do so. Efforts to hack or breach security measures, failures of systems or software to operate as designed or intended, viruses, operator error, or inadvertent releases of data may materially impact our and our service providers' information systems and records. Our reliance on computer, Internet-based and mobile systems and communications and the frequency and sophistication of efforts by hackers to gain unauthorized access to such systems have increased significantly in recent years. A significant theft, loss, or fraudulent use of customer, employee, or company data maintained by us or by a service provider could adversely impact our reputation, cause harm to our business generally, and could result in remedial and other expenses, fines, or litigation. Breaches in the security of our information systems or those of our service providers or other disruptions in data services could lead to an interruption in the operation of our systems, resulting in a loss of data, 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.

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 SEC 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 in filings with the SEC. 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 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 May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers", which may 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.

SELECTED CONSOLIDATED FINANCIAL DATA

The information below is not necessarily indicative of the results of future operations and should be read in conjunction with "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS", and the Consolidated Financial Statements and notes thereto included in "FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA", 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,				
	2014	2013	2012	2011	2010
Net sales	\$ 562,329	\$ 529,354	\$ 463,090	\$ 468,630	\$ 331,780
Operating income	\$ 41,280	\$ 32,154	\$ 26,202	\$ 26,576	\$ 21,301
Net income	\$ 32,534	\$ 22,963	\$ 16,553	\$ 19,946	\$ 15,081
Earnings per share:					
Basic	\$ 2.06	\$ 1.51	\$ 1.11	\$ 1.34	\$ 1.10
Diluted	\$ 2.01	\$ 1.47	\$ 1.10	\$ 1.31	\$ 1.07
Shares used in calculating earnings per share:					
Basic	15,781	15,248	14,952	14,912	13,764
Diluted	16,152	15,601	15,110	15,213	14,106
Cash dividends declared per common share	—	—	—	—	—
Gross margin	29.7 %	28.6 %	28.8 %	27.8 %	31.3 %
Selling, general, administrative, research and development expenses as a % of net sales	22.4 %	22.5 %	23.2 %	22.1 %	24.9 %
Operating margin	7.3 %	6.1 %	5.6 %	5.7 %	6.4 %
Net income as a % of net sales	5.8 %	4.3 %	3.6 %	4.3 %	4.6 %
Return on average assets	7.3 %	5.7 %	4.4 %	5.4 %	5.0 %

(In thousands, except per share data)	December 31, 2014				
	2014	2013	2012	2011	2010
Working capital	\$ 183,600	\$ 158,548	\$ 113,488	\$ 84,761	\$ 66,101
Ratio of current assets to current liabilities	2.3	2.3	2.0	1.7	1.4
Total assets	\$ 463,070	\$ 423,733	\$ 379,324	\$ 369,488	\$ 372,533
Cash and cash equivalents	\$ 112,521	\$ 76,174	\$ 44,593	\$ 29,372	\$ 54,249
Stockholders' equity	\$ 315,621	\$ 291,270	\$ 250,650	\$ 229,989	\$ 211,204
Book value per share ⁽¹⁾	\$ 19.85	\$ 18.55	\$ 16.74	\$ 15.55	\$ 14.13
Ratio of liabilities to liabilities and stockholders' equity	31.8 %	31.3 %	33.9 %	37.8 %	43.3 %

⁽¹⁾ Book value per share is defined as stockholders' equity divided by common shares issued less treasury stock

The comparability of information for 2010 compared to subsequent years is affected by the acquisition of Enson Assets Limited during the fourth quarter of 2010.

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 863,000 individual device functions and approximately 6,900 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-two subsidiaries located in Argentina, Brazil, British Virgin Islands (3), Cayman Islands, France, Germany, Hong Kong (4), India, Italy, the Netherlands, People's Republic of China (4), Singapore, Spain, and the United Kingdom.

To recap our results for 2014:

- Net sales increased 6.2% to \$562.3 million in 2014 from \$529.4 million in 2013.
- Our gross margin percentage increased from 28.6% in 2013 to 29.7% in 2014.
- Operating expenses, as a percent of sales, decreased from 22.5% in 2013 to 22.4% in 2014
- Operating income increased 28.4% to \$41.3 million in 2014 from \$32.2 million in 2013, and our operating margin percentage increased to 7.3% in 2014, compared to 6.1% in 2013.
- Our effective tax rate decreased to 19.6% in 2014 from 20.9% in 2013.

Our strategic business objectives for 2015 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, 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.

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 "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.

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 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 the 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.

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,		
	2014	2013	2012
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	70.3	71.4	71.2
Gross profit	29.7	28.6	28.8
Research and development expenses	3.0	3.1	3.1
Selling, general and administrative expenses	19.4	19.4	20.1
Operating income	7.3	6.1	5.6
Interest income (expense), net	0.0	0.0	(0.0)
Other income (expense), net	(0.1)	(0.6)	(0.3)
Income before income taxes	7.2	5.5	5.3
Provision for income taxes	1.4	1.2	1.7
Net income	5.8 %	4.3 %	3.6 %

Year Ended December 31, 2014 ("2014") Compared to Year Ended December 31, 2013 ("2013")

Net sales. Net sales for 2014 were \$562.3 million, an increase of 6.2% compared to \$529.4 million in 2013. Net sales by our business and consumer lines were as follows:

	2014		2013	
	\$ (millions)	% of total	\$ (millions)	% of total
Business	\$ 507.1	90.2 %	\$ 475.7	89.9 %
Consumer	55.2	9.8 %	53.7	10.1 %
Total net sales	\$ 562.3	100.0 %	\$ 529.4	100.0 %

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were 90.2% of net sales in 2014 compared to 89.9% in 2013. Net sales in our Business lines in 2014 increased by 6.6% to \$507.1 million from \$475.7 million in 2013. The increase was primarily due to an increase in remote control sales to consumer electronics companies in Asia, an increase in licensing revenue, growth in sales of our embedded chip solutions to smart device manufacturers, and increased market share in European subscription broadcasting.

Net sales in our Consumer lines (*One For All*[®] retail and private label) were 9.8% of net sales in 2014 compared to 10.1% in 2013. Net sales in our Consumer lines in 2014 increased by 2.8% to \$55.2 million from \$53.7 million in 2013. International retail sales increased 3.8% from \$49.6 million in 2013 to \$51.5 million in 2014 due primarily to increased distribution in southern European countries and Latin America as well as increased demand resulting from the 2014 FIFA World Cup™.

Gross profit. Gross profit in 2014 was \$166.9 million compared to \$151.5 million in 2013. Gross profit as a percent of sales increased to 29.7% in 2014 from 28.6% in 2013. The gross margin percentage was favorably impacted by an increase in licensing revenue associated with the smart device channel and, to a lesser extent, the strengthening of the British Pound compared to the U.S. Dollar. Partially offsetting these favorable items was an increase in sales to certain large customers that yield a lower gross margin than our company's average.

Research and development ("R&D") expenses. R&D expenses increased 3.2% to \$17.0 million in 2014 from \$16.4 million in 2013. 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 5.6% to \$108.6 million in 2014 from \$102.9 million in 2013. This increase was driven primarily by increased incentive compensation costs as a result of our strong financial performance in the current year as well as an increase in external legal expenses related to patent litigation cases. In addition, in an effort to further support the smart device channel, we increased headcount within our global engineering team which resulted in higher payroll costs in 2014.

Interest income (expense), net. Net interest income was \$11 thousand in 2014 compared net interest income of \$51 thousand in 2013.

Other income (expense), net. Net other expense was \$0.8 million in 2014 compared to net other expense of \$3.2 million in 2013. This decrease was driven primarily by a decrease in 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 \$7.9 million in 2014 compared to \$6.1 million in 2013 and our effective tax rate was 19.6% in 2014 compared to 20.9% in 2013. The decrease in our effective tax rate was due primarily to 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.

Year Ended December 31, 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
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 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 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 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.

Liquidity and Capital Resources

Sources and Uses of Cash

(In thousands)	Year Ended December 31, 2014	Increase (Decrease)	Year Ended December 31, 2013	Increase (Decrease)	Year Ended December 31, 2012
Cash provided by operating activities	\$ 63,473	\$ 32,779	\$ 30,694	\$ (12,849)	\$ 43,543
Cash used for investing activities	(18,419)	(6,745)	(11,674)	(71)	(11,603)
Cash (used for) provided by financing activities	(8,046)	(18,084)	10,038	27,616	(17,578)
Effect of exchange rate changes on cash	(661)	(3,184)	2,523	1,664	859

	December 31, 2014	Increase (Decrease)	December 31, 2013
Cash and cash equivalents	\$ 112,521	\$ 36,347	\$ 76,174
Working capital	183,600	25,052	158,548

Net cash provided by operating activities increased \$32.8 million in 2014 when compared to 2013, primarily due to a \$20.8 million increase in cash flows associated with operating assets and liabilities and a \$9.6 million increase in net income. With respect to operating assets and liabilities, improved vendor management helped drive a \$17.7 million increase in cash flows associated with accounts payable and accrued expenses. Additionally, cash flows associated with inventories improved by \$7.2 million as our inventory turns increased to 4.1 turns for 2014, compared to 3.9 turns for 2013, primarily as a result of more tightly managed inventory levels.

Net cash provided by operating activities decreased \$12.9 million in 2013 when compared to 2012, driven largely by an increase of \$18.3 million in cash outflows associated with inventory as we increased inventory levels in 2013 to support a higher level of expected sales. We also experienced a \$5.9 million decrease in cash flows associated with accounts payable due to the timing of payments. These cash outflows were partially offset by a \$6.4 million increase in net income as well as a \$4.5 million decrease in cash outflows associated with accounts receivable. With respect to accounts receivable, although net 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 used for investing activities during 2014 was \$18.4 million compared to \$11.7 million and \$11.6 million of net cash used during 2013 and 2012, respectively. During 2014, 2013 and 2012, cash used for investing activities consisted primarily of our investments in property, plant, and equipment as well as internally developed patents. We increased our equipment purchases in 2014 for our factories in China in an effort to provide more automation.

Net cash used for financing activities was \$8.0 million during 2014 compared to net cash provided by financing activities of \$10.0 million during 2013 and net cash used for financing activities of \$17.6 million during 2012. During 2014, we purchased 383,978 shares of our common stock at a cost of \$16.2 million, compared to 153,115 and 200,847 shares at a cost of \$3.6 million and \$3.5 million during 2013 and 2012, respectively. In addition, we made net debt payments of \$16.4 million during 2012. Offsetting these cash outflows were proceeds from stock option exercises of \$8.1 million during 2014 compared to proceeds of \$12.4 million and \$2.2 million during 2013 and 2012, respectively.

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, 2014, we had 1,067,655 shares available for repurchase under the Board's authorizations. We hold repurchased shares as treasury stock and they are available for reissue. Presently, we have no plans to distribute these shares, although we may change these plans if necessary to fulfill our on-going business objectives.

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	\$ 12,938	\$ 3,035	\$ 4,764	\$ 2,548	\$ 2,591
Capital lease obligations	53	20	33	—	—
Purchase obligations ⁽¹⁾	1,027	1,027	—	—	—
Total contractual obligations	\$ 14,018	\$ 4,082	\$ 4,797	\$ 2,548	\$ 2,591

⁽¹⁾ Purchase obligations consist of contractual payments to purchase tooling and other fixed 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 2015; 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 "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK".

	On December 31,		
	2014	2013	2012
Cash and cash equivalents	\$ 112,521	\$ 76,174	\$ 44,593
Total debt	—	—	—
Available borrowing resources	54,987	54,987	55,000

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, 2014, we had \$43.5 million, \$50.8 million, \$12.9 million and \$5.3 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.

On October 9, 2014, we extended the term of our Amended and Restated Credit Agreement ("Amended Credit Agreement") with U.S. Bank National Association ("U.S. Bank") to November 1, 2017. The Amended Credit Agreement provides for a \$55.0 million line of credit ("Credit Line") that 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, 2014.

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 0.00% to 0.50%). The applicable margins are calculated quarterly and vary based on our cash flow 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 and a maximum cash flow leverage ratio. In addition, the Amended Credit Agreement also contains other customary affirmative and negative covenants and events of default. As of December 31, 2014, 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 "FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA — Notes to Consolidated Financial Statements — Note 2" for a discussion of recent accounting pronouncements.

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, 2014, 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 9, 2014, 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, 2014.

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, 2014, 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 are 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. 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 gains and losses of the related foreign currency-denominated exposures.

It is difficult to estimate the impact of fluctuations on reported net 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 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, net of the hedging impact of foreign currency contracts in place, with all other variables held constant. Based on our overall foreign currency rate exposure at December 31, 2014, 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, 2014, net income in the first quarter of 2015 would fluctuate by approximately \$6.6 million.

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, 2014 and 2013, 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, 2014. 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, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, 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, 2014, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 5, 2015 expressed an unqualified opinion.



Los Angeles, California
March 5, 2015

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

ASSETS	December 31, 2014	December 31, 2013
Current assets:		
Cash and cash equivalents	\$ 112,521	\$ 76,174
Accounts receivable, net	97,989	95,408
Inventories, net	97,474	96,309
Prepaid expenses and other current assets	6,856	4,395
Income tax receivable	77	13
Deferred income taxes	5,048	6,167
Total current assets	319,965	278,466
Property, plant, and equipment, net	76,135	75,570
Goodwill	30,739	31,000
Intangible assets, net	24,614	26,963
Deferred income taxes	6,146	6,455
Other assets	5,471	5,279
Total assets	\$ 463,070	\$ 423,733
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 69,991	\$ 58,498
Line of credit	—	—
Accrued compensation	40,656	38,317
Accrued sales discounts, rebates and royalties	8,097	8,539
Accrued income taxes	4,263	3,032
Deferred income taxes	—	303
Other accrued expenses	13,358	11,229
Total current liabilities	136,365	119,918
Long-term liabilities:		
Deferred income taxes	8,456	9,887
Income tax payable	566	606
Other long-term liabilities	2,062	2,052
Total liabilities	147,449	132,463
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 5,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.01 par value, 50,000,000 shares authorized; 22,909,884 and 22,344,121 shares issued on December 31, 2014 and 2013, respectively	229	223
Paid-in capital	214,710	199,513
Accumulated other comprehensive income (loss)	(4,446)	2,982
Retained earnings	226,066	193,532
	436,559	396,250
Less cost of common stock in treasury, 7,008,475 and 6,639,497 shares on December 31, 2014 and 2013, respectively	(120,938)	(104,980)
Total stockholders' equity	315,621	291,270
Total liabilities and stockholders' equity	\$ 463,070	\$ 423,733

See Note 5 for further information concerning our purchases from a related party vendor.

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

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

	Year Ended December 31,		
	2014	2013	2012
Net sales	\$ 562,329	\$ 529,354	\$ 463,090
Cost of sales	395,429	377,892	329,653
Gross profit	166,900	151,462	133,437
Research and development expenses	16,975	16,447	14,152
Selling, general and administrative expenses	108,645	102,861	93,083
Operating income	41,280	32,154	26,202
Interest income (expense), net	11	51	(151)
Other income (expense), net	(840)	(3,169)	(1,413)
Income before provision for income taxes	40,451	29,036	24,638
Provision for income taxes	7,917	6,073	8,085
Net income	\$ 32,534	\$ 22,963	\$ 16,553
Earnings per share:			
Basic	\$ 2.06	\$ 1.51	\$ 1.11
Diluted	\$ 2.01	\$ 1.47	\$ 1.10
Shares used in computing earnings per share:			
Basic	15,781	15,248	14,952
Diluted	16,152	15,601	15,110

See Note 5 for further information concerning our purchases from a related party vendor.

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

UNIVERSAL ELECTRONICS INC.
CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS
(In thousands)

	Year Ended December 31,		
	2014	2013	2012
Net income	\$ 32,534	\$ 22,963	\$ 16,553
Other comprehensive income (loss):			
Change in foreign currency translation adjustment	(7,428)	1,930	114
Comprehensive income	<u>\$ 25,106</u>	<u>\$ 24,893</u>	<u>\$ 16,667</u>

See Note 5 for further information concerning our purchases from a related party vendor.

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

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

	Common Stock Issued		Common Stock in Treasury		Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Totals
	Shares	Amount	Shares	Amount				
Balance at December 31, 2011	21,143	\$ 211	(6,353)	\$ (98,877)	\$ 173,701	\$ 938	\$ 154,016	\$ 229,989
Net income							16,553	16,553
Currency translation adjustment						114		114
Shares issued for employee benefit plan and compensation	159	2			747			749
Purchase of treasury shares			(201)	(3,451)				(3,451)
Stock options exercised	189	2			2,202			2,204
Shares issued to Directors			38	535	(535)			—
Stock-based compensation expense					4,575			4,575
Tax benefit from exercise of non-qualified stock options and vested restricted stock					(83)			(83)
Balance at December 31, 2012	21,491	215	(6,516)	(101,793)	180,607	1,052	170,569	250,650
Net income							22,963	22,963
Currency translation adjustment						1,930		1,930
Shares issued for employee benefit plan and compensation	174	1			746			747
Purchase of treasury shares			(153)	(3,607)				(3,607)
Stock options exercised	679	7			12,364			12,371
Shares issued to Directors			30	420	(420)			—
Stock-based compensation expense					5,342			5,342
Tax benefit from exercise of non-qualified stock options and vested restricted stock					874			874
Balance at December 31, 2013	22,344	223	(6,639)	(104,980)	199,513	2,982	193,532	291,270
Net income							32,534	32,534
Currency translation adjustment						(7,428)		(7,428)
Shares issued for employee benefit plan and compensation	160	2			845			847
Purchase of treasury shares			(384)	(16,168)				(16,168)
Stock options exercised	391	4			8,118			8,122
Shares issued to Directors	15	—	15	210	(210)			—
Stock-based compensation expense					6,444			6,444
Balance at December 31, 2014	22,910	\$ 229	(7,008)	\$ (120,938)	\$ 214,710	\$ (4,446)	\$ 226,066	\$ 315,621

See Note 5 for further information concerning our purchases from a related party vendor.

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

UNIVERSAL ELECTRONICS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31, 2014		
	2014	2013	2012
Cash provided by operating activities:			
Net income	\$ 32,534	\$ 22,963	\$ 16,553
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	18,244	18,363	17,613
Provision for doubtful accounts	249	190	73
Provision for inventory write-downs	3,473	3,680	2,994
Deferred income taxes	(538)	(1,617)	2,536
Tax benefit from exercise of stock options and vested restricted stock	—	874	(83)
Excess tax benefit from stock-based compensation	—	(1,274)	(111)
Shares issued for employee benefit plan	847	747	749
Stock-based compensation	6,444	5,342	4,575
Changes in operating assets and liabilities:			
Accounts receivable	(7,966)	(4,509)	(8,998)
Inventories	(8,161)	(15,353)	2,987
Prepaid expenses and other assets	(2,803)	(633)	(588)
Accounts payable and accrued expenses	19,964	2,285	8,186
Accrued income taxes	1,186	(364)	(2,943)
Net cash provided by operating activities	<u>63,473</u>	<u>30,694</u>	<u>43,543</u>
Cash used for investing activities:			
Acquisition of property, plant, and equipment	(16,566)	(10,355)	(10,463)
Acquisition of intangible assets	(1,853)	(1,319)	(1,140)
Net cash used for investing activities	<u>(18,419)</u>	<u>(11,674)</u>	<u>(11,603)</u>
Cash (used for) provided by financing activities:			
Issuance of debt	—	19,500	30,800
Payment of debt	—	(19,500)	(47,200)
Debt issuance costs	—	—	(42)
Proceeds from stock options exercised	8,122	12,371	2,204
Treasury stock purchased	(16,168)	(3,607)	(3,451)
Excess tax benefit from stock-based compensation	—	1,274	111
Net cash (used for) provided by financing activities	<u>(8,046)</u>	<u>10,038</u>	<u>(17,578)</u>
Effect of exchange rate changes on cash	<u>(661)</u>	<u>2,523</u>	<u>859</u>
Net increase (decrease) in cash and cash equivalents	36,347	31,581	15,221
Cash and cash equivalents at beginning of year	76,174	44,593	29,372
Cash and cash equivalents at end of period	<u>\$ 112,521</u>	<u>\$ 76,174</u>	<u>\$ 44,593</u>
Supplemental Cash Flow Information:			
Income taxes paid	\$ 7,178	\$ 6,068	\$ 10,445
Interest paid	\$ —	\$ 44	\$ 304

See Note 5 for further information concerning our purchases from a related party vendor.

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

UNIVERSAL ELECTRONICS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

Note 1 — Description of Business

Universal Electronics Inc. ("UEI"), based in Southern California, develops and manufactures a broad line of easy-to-use, pre-programmed universal wireless control products and audio-video accessories as well as software designed to enable consumers to wirelessly connect, control and interact with an increasingly complex home entertainment environment. In addition, over the past 27 years we have developed a broad portfolio of patented technologies and a database of home connectivity software that we license to our customers, including many leading Fortune 500 companies.

Our primary markets include cable and satellite television service provider, original equipment manufacturer ("OEM"), retail, private label, and personal computing companies. We sell directly to our customers, and for retail we also sell through distributors in Europe, Australia, New Zealand, South Africa, the Middle East, Mexico, and selected countries in Asia and Latin America under the *One For All*[®] and Nevo[®] brand names.

As used herein, the terms "we", "us" and "our" refer to Universal Electronics Inc. and its subsidiaries unless the context indicates to the contrary.

Note 2 — Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Reclassifications

Certain prior period amounts in the accompanying consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported net income or stockholders' equity.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and assumptions, including those related to revenue recognition, allowances for sales returns and doubtful accounts, 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 assumptions and estimates, and they may be adjusted as more information becomes available. Any adjustment may be material.

Revenue Recognition

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

The provision recorded for estimated sales returns is deducted from gross sales to arrive at net sales in the period the related revenue is recorded. These estimates are based on historical sales returns, analysis of credit memo data and other known factors. We have no obligations after delivery of our products other than the associated warranties. See Note 13 for further information concerning our warranty obligations.

We accrue for discounts and rebates based on historical experience and our expectations regarding future sales to our customers. Accruals for discounts and rebates 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.

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Sales allowances are recognized as reductions of gross accounts receivable to arrive at accounts receivable, net if the sales allowances are distributed in customer account credits. See Note 4 for further information concerning our sales allowances.

Revenue for the sale of tooling is recognized when the related services have 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.

We present all non-income government-assessed taxes (sales, use and value added taxes) collected from our customers and remitted to governmental agencies on a net basis (excluded from revenue) in our financial statements. The government-assessed taxes are recorded in other accrued expenses until they are remitted to the government agency.

Income Taxes

Income tax expense includes U.S. and foreign income taxes. We account for income taxes using the liability method. We record deferred tax assets and deferred tax liabilities on our balance sheet for expected future tax consequences of events recognized in our financial statements in a different period than our tax return using enacted tax rates that will be in effect when these differences reverse. We record a valuation allowance to reduce net deferred tax assets if we determine that it is more likely than not that the deferred tax assets will not be realized. A current tax asset or liability is recognized for the estimated taxes refundable or payable for the current year.

Accounting standards prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of the positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. A "more likely than not" tax position is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement, or else a full reserve is established against the tax asset or a liability is recorded. See Note 9 for further information concerning income taxes.

Research and Development

Research and development costs are expensed as incurred and consist primarily of salaries, employee benefits, supplies and materials.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled \$1.2 million, \$1.2 million, and \$1.3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Shipping and Handling Fees and Costs

We include shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with in-bound freight are recorded in cost of goods sold. Other shipping and handling costs are included in selling, general and administrative expenses and totaled \$11.3 million, \$11.3 million and \$9.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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. See Note 16 for further information regarding stock-based compensation.

Foreign Currency Translation and Foreign Currency Transactions

We use the U.S. Dollar as our functional currency for financial reporting purposes. The functional currency for most of our foreign subsidiaries is their local currency. The translation of foreign currencies into U.S. Dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet dates and for revenue and expense accounts using the average exchange rate during each period. The gains and losses resulting from the translation are included in the foreign currency translation adjustment account, a component of accumulated other comprehensive income in stockholders' equity, and are excluded from net income. The portions of intercompany accounts receivable and accounts payable that are intended for settlement are translated at exchange rates in effect at the balance sheet date. Our intercompany foreign investments and long-term debt that are not intended for settlement are translated using historical exchange rates.

Transaction gains and losses generated by the effect of changes in foreign currency exchange rates on recorded assets and liabilities denominated in a currency different than the functional currency of the applicable entity are recorded in other income (expense), net. See Note 17 for further information concerning transaction gains and losses.

Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and dilutive potential common shares, including the dilutive effect of stock option and restricted stock awards, outstanding during the period. Dilutive potential common shares for all periods presented are computed utilizing the treasury stock method.

In the computation of diluted earnings per common share we exclude stock options with exercise prices greater than the average market price of the underlying common stock because their inclusion would be anti-dilutive. Furthermore, we exclude shares of restricted stock whose combined unamortized fair value and excess tax benefits are greater than the average market price of the underlying common stock during the period, as their effect would be anti-dilutive.

Financial Instruments

Our financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and debt. The carrying value of our financial instruments approximates fair value as a result of their short maturities. See Notes 3, 4, 5, 8, 10, and 11 for further information concerning our financial instruments.

Cash and Cash Equivalents

Cash and cash equivalents include cash accounts and all investments purchased with initial maturities of three months or less. 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. These financial institutions are located in many different geographic regions. As part of our cash and risk management processes, we perform periodic evaluations of the relative credit standing of our financial institutions. We have not sustained credit losses from instruments held at financial institutions. See Note 3 for further information concerning cash and cash equivalents.

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 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. If circumstances related to a customer change, our estimates of the recoverability of the receivables would be further adjusted.

Inventories

Inventories consist of remote controls, audio-video accessories as well as the related component parts and raw materials. Inventoriable costs include materials, labor, freight-in and manufacturing overhead related to the purchase and production of inventories. We value our inventories at the lower of cost or market. Cost is determined using the first-in, first-out method. We attempt to carry inventories in amounts necessary to satisfy our customer requirements on a timely basis. See Note 5 for further information concerning our inventories and suppliers.

Product innovations and technological advances may shorten a given product's life cycle. We continually monitor our inventories to identify any excess or obsolete items on hand. We write-down our inventories for estimated excess and obsolescence in an amount equal to the difference between the cost of the inventories and estimated net realizable value. These estimates are based upon management's judgment about future demand and market conditions. Actual results may differ from management's judgments and additional write-downs may be required.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost. The cost of property, plant, and equipment includes the purchase price of the asset and all expenditures necessary to prepare the asset for its intended use. We capitalize additions and improvements and expense maintenance and repairs as incurred. To qualify for capitalization, an asset, excluding computer equipment, must have a useful life greater than one year and a cost equal to or greater than \$5,000 for individual assets or \$5,000 for assets purchased in bulk. To qualify for capitalization, computer equipment, must have a useful life of greater than one year and a cost equal to or greater than \$1,000 for individual assets or \$5,000 for assets purchased in bulk.

We capitalize certain internal and external costs incurred to acquire or create internal use software, principally related to software coding, designing system interfaces and installation and testing of the software.

For financial reporting purposes, depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the appropriate accounts and any gain or loss is included as a component of depreciation expense.

Estimated useful lives consist of the following:

Buildings	25-33 Years
Tooling and equipment	2-5 Years
Computer equipment	3-5 Years
Software	3-7 Years
Furniture and fixtures	5-8 Years
Leasehold and building improvements	Lesser of lease term or useful life (approximately 2 to 10 years)

See Note 6 for further information concerning our property, plant, and equipment.

Goodwill

We record the excess purchase price of net tangible and intangible assets acquired over their estimated fair value as 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 may 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.

See Note 7 for further information concerning goodwill.

Long-Lived and Intangible Assets Impairment

Intangible assets consist principally of distribution rights, patents, trademarks, trade names, developed and core technologies, capitalized software development costs (see also Note 2 under the caption *Capitalized Software Development Costs*) and customer relationships. Capitalized amounts related to patents represent external legal costs for the application and maintenance of patents. Intangible assets are amortized using the straight-line method over their estimated period of benefit, ranging from one to fifteen years.

We assess the impairment of long-lived assets and intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which may trigger an impairment review include the following: (1) significant underperformance relative to expected historical or projected future operating results; (2) significant changes in the manner or use of the assets or strategy for the overall business; (3) significant negative industry or economic trends and (4) a significant decline in our stock price for a sustained period.

We conduct an impairment review when we determine that the carrying value of a long-lived or intangible asset may not be recoverable based upon the existence of one or more of the above indicators of impairment. The asset is impaired if its carrying value exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. In assessing recoverability, we must make assumptions regarding estimated future cash flows and other factors.

The impairment loss is the amount by which the carrying value of the asset exceeds its fair value. We estimate fair value utilizing the projected discounted cash flow method and a discount rate determined by our management to be commensurate with the risk inherent in our current business model. When calculating fair value, we must make assumptions regarding estimated future cash flows, discount rates and other factors.

See Notes 6 and 15 for further information concerning long-lived assets. See Note 7 for further information concerning intangible assets.

Capitalized Software Development Costs

Costs incurred to develop software for resale are expensed when incurred as research and development expense until technological feasibility has been established. We have determined that technological feasibility for our products is typically established when a working prototype is complete. Once technological feasibility is established, software development costs are capitalized until the product is available for general release to customers.

Capitalized software development costs are amortized on a product-by-product basis. Amortization is recorded in cost of sales and is the greater of the amounts computed using:

- a. the net book value at the beginning of the period multiplied by the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product; or
- b. the straight-line method over the remaining estimated economic life of the product including the period being reported on.

The amortization of capitalized software development costs begins when the related product is available for general release to customers. The amortization period is generally two years.

We compare the unamortized capitalized software development costs of a product to its net realizable value at each balance sheet date. The amount by which the unamortized capitalized software development costs exceed the product's net realizable value is written off. The net realizable value is the estimated future gross revenues of a product reduced by its estimated completion and disposal costs. Any remaining amount of capitalized software development costs are considered to be the cost for subsequent accounting periods and the amount of the write-down is not subsequently restored. See Note 7 for further information concerning capitalized software development costs.

Derivatives

Our foreign currency exposures are primarily concentrated in the Argentinian Peso, Brazilian Real, British Pound, Chinese Yuan Renminbi, Euro, Hong Kong Dollar, Indian Rupee, and Singapore Dollar. We periodically enter into foreign currency exchange contracts with terms normally lasting less than nine months to protect against the adverse effects that exchange-rate fluctuations may have on our foreign currency-denominated receivables, payables, cash flows and reported income. We do not enter into financial instruments for speculation or trading purposes.

The derivatives we enter into have not qualified for hedge accounting. The gains and losses on both the derivatives and the foreign currency-denominated balances are recorded as foreign exchange transaction gains or losses and are classified in other income (expense), net. Derivatives are recorded on the balance sheet at fair value. The estimated fair value of derivative financial instruments represents the amount required to enter into similar offsetting contracts with similar remaining maturities based on quoted market prices. See Note 19 for further information concerning derivatives.

Fair-Value Measurements

We measure fair value using the framework established by the Financial Accounting Standards Board ("FASB") for fair value measurements and disclosures. This framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

The valuation techniques are based upon observable and unobservable inputs. Observable or market inputs reflect market data obtained from independent sources. Unobservable inputs require management to make certain assumptions and judgments based on the best information available. Observable inputs are the preferred data source. These two types of inputs result in the following fair value hierarchy:

- Level 1: Quoted prices (unadjusted) for identical instruments in active markets.
- Level 2: Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Prices or valuations that require management inputs that are both significant to the fair value measurement and unobservable.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers", which will supersede most existing U.S. GAAP revenue recognition guidance. This new standard requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. In addition, ASU 2014-09 contains expanded disclosure requirements relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for fiscal periods beginning after December 15, 2016 and permits the use of either the full retrospective or cumulative effect transition method. Early adoption is not permitted. We have not yet selected a transition method and are evaluating the impact that this new standard will have on our consolidated financial statements.

Note 3 — Cash and Cash Equivalents

Cash and cash equivalents were held in the following geographic regions:

(In thousands)	December 31,	
	2014	2013
United States	\$ 43,546	\$ 30,082
Asia	50,799	34,627
Europe	12,912	7,161
South America	5,264	4,304
Total cash and cash equivalents	\$ 112,521	\$ 76,174

Note 4 — Accounts Receivable, Net and Revenue Concentrations

Accounts receivable, net were as follows:

(In thousands)	December 31,	
	2014	2013
Trade receivables, gross	\$ 91,605	\$ 94,325
Allowance for doubtful accounts	(616)	(478)
Allowance for sales returns	(617)	(865)
Net trade receivables	90,372	92,982
Other	7,617	2,426
Accounts receivable, net	\$ 97,989	\$ 95,408

Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts were as follows:

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Balance at beginning of period	\$ 478	\$ 322	\$ 1,021
Additions to costs and expenses	249	190	73
(Write-offs)/FX effects	(111)	(34)	(772)
Balance at end of period	\$ 616	\$ 478	\$ 322

Sales Returns

The allowance for sales returns at December 31, 2014 and 2013 included reserves for items returned prior to year-end that were not completely processed, and therefore had not yet been removed from the allowance for sales returns balance. If these returns had been fully processed, the allowance for sales returns balance would have been approximately \$0.4 million and \$0.5 million on December 31, 2014 and 2013, respectively. The value of these returned goods was included in our inventory balance at December 31, 2014 and 2013.

Significant Customer

Net sales to the following customer totaled more than 10% of our net sales:

	Year Ended December 31,					
	2014		2013		2012	
	\$ (thousands)	% of Net Sales	\$ (thousands)	% of Net Sales	\$ (thousands)	% of Net Sales
DIRECTV	\$ 58,622	10.4 %	\$ 82,679	15.6 %	\$ 78,325	16.9 %

The loss of this customer or any other customer, either in the United States or abroad, due to their financial weakness or bankruptcy, or our inability to obtain orders or maintain our order volume with them, may have a material adverse effect on our financial condition, results of operations and cash flows.

Note 5 — Inventories, Net and Significant Suppliers

Inventories, net were as follows:

(In thousands)	December 31,	
	2014	2013
Raw materials	\$ 24,763	\$ 18,990
Components	16,170	18,623
Work in process	2,622	2,017
Finished goods	56,458	59,393
Reserve for excess and obsolete inventory	(2,539)	(2,714)
Inventories, net	\$ 97,474	\$ 96,309

Reserve for Excess and Obsolete Inventory

Changes in the reserve for excess and obsolete inventory were as follows:

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Balance at beginning of period	\$ 2,714	\$ 2,024	\$ 3,447
Additions charged to costs and expenses ⁽¹⁾	3,181	3,387	2,511
Sell through ⁽²⁾	(869)	(365)	(1,166)
Write-offs/FX effects	(2,487)	(2,332)	(2,768)
Balance at end of period	\$ 2,539	\$ 2,714	\$ 2,024

⁽¹⁾ The additions charged to costs and expenses do not include inventory directly written-off that was scrapped during production totaling \$0.3 million, \$0.3 million, and \$0.5 million for the years ended December 31, 2014, 2013, and 2012, respectively. These amounts are production waste and are not included in management's reserve for excess and obsolete inventory.

⁽²⁾ These amounts represent the reversal of reserves associated with inventory items that were sold during the period.

Significant Suppliers

We purchase integrated circuits, components and finished goods from multiple sources. Maxim Integrated Products International Limited provided \$31.2 million or 10.7% of total inventory purchases during the year ended December 31, 2014. No single supplier provided more than 10% of our total inventory purchases during the years ended December 31, 2013 and 2012.

Related Party Vendor

We purchase certain printed circuit board assemblies from a related party vendor. The vendor is considered a related party for financial reporting purposes because our Senior Vice President of Manufacturing owns 40% of this vendor. Inventory purchases from this vendor were as follows:

	Year Ended December 31,					
	2014		2013		2012	
	\$ (thousands)	% of Total Inventory Purchases	\$ (thousands)	% of Total Inventory Purchases	\$ (thousands)	% of Total Inventory Purchases
Related party vendor	\$ 9,188	3.2 %	\$ 9,846	3.5 %	\$ 8,845	3.8 %

Total accounts payable to this vendor were as follows:

	December 31,			
	2014		2013	
	\$ (thousands)	% of Accounts Payable	\$ (thousands)	% of Accounts Payable
Related party vendor	\$ 2,378	3.4 %	\$ 2,439	4.2 %

Our payable terms and pricing with this vendor are consistent with the terms offered by other vendors in the ordinary course of business. The accounting policies that we apply to our transactions with our related party vendor are consistent with those applied in transactions with independent third parties. Corporate management routinely monitors purchases from our related party vendor to ensure these purchases remain consistent with our business objectives.

Note 6 — Property, Plant, and Equipment, Net

Property, plant, and equipment, net were as follows:

(In thousands)	December 31,	
	2014	2013
Buildings	\$ 51,046	\$ 51,901
Machinery and equipment	52,449	48,859
Tooling	22,558	26,495
Leasehold and building improvements	18,344	17,749
Software	10,957	9,754
Furniture and fixtures	3,899	3,835
Computer equipment	4,421	3,837
	<u>163,674</u>	<u>162,430</u>
Accumulated depreciation	(90,048)	(87,703)
	<u>73,626</u>	<u>74,727</u>
Construction in progress	2,509	843
Total property, plant, and equipment, net	<u>\$ 76,135</u>	<u>\$ 75,570</u>

Depreciation expense, including tooling depreciation which is recorded in cost of goods sold, was \$14.1 million, \$14.2 million and \$13.4 million for the years ended December 31, 2014, 2013, and 2012, respectively.

The net book value of property, plant, and equipment located within the People's Republic of China ("PRC") was \$66.0 million and \$68.2 million on December 31, 2014 and 2013, respectively.

Construction in progress was as follows:

(In thousands)	December 31,	
	2014	2013
Buildings	\$ 146	\$ —
Machinery and equipment	1,045	158
Tooling	284	134
Leasehold and building improvements	370	104
Software	335	372
Other	329	75
Total construction in progress	\$ 2,509	\$ 843

We expect that the assets under construction will be placed into service during the first quarter of 2015. We will begin to depreciate the cost of these assets under construction once they are placed into service.

Note 7 — Goodwill and Intangible Assets, Net

Goodwill

Goodwill and changes in the carrying amount of goodwill were as follows:

(In thousands)	
Balance at December 31, 2012	\$ 30,890
FX effects	110
Balance at December 31, 2013	\$ 31,000
FX effects	(261)
Balance at December 31, 2014	\$ 30,739

We conducted annual goodwill impairment reviews on December 31, 2014, 2013, and 2012 utilizing significant unobservable inputs (level 3). Based on the analysis performed, we determined that our goodwill was not impaired.

Intangible Assets, Net

The components of intangible assets, net were as follows:

(In thousands)	December 31,					
	2014			2013		
	Gross ⁽¹⁾	Accumulated Amortization ⁽¹⁾	Net ⁽¹⁾	Gross ⁽¹⁾	Accumulated Amortization ⁽¹⁾	Net ⁽¹⁾
Distribution rights (10 years)	\$ 347	\$ (76)	\$ 271	\$ 395	\$ (52)	\$ 343
Patents (10 years)	10,107	(4,736)	5,371	8,879	(4,251)	4,628
Trademark and trade names (10 years)	2,001	(834)	1,167	2,841	(1,411)	1,430
Developed and core technology (5-15 years)	3,506	(1,373)	2,133	3,506	(1,140)	2,366
Capitalized software development costs (2 years)	276	(85)	191	311	(133)	178
Customer relationships (10-15 years)	26,406	(10,925)	15,481	26,406	(8,388)	18,018
Total intangible assets, net	\$ 42,643	\$ (18,029)	\$ 24,614	\$ 42,338	\$ (15,375)	\$ 26,963

⁽¹⁾ This table excludes the gross value of fully amortized intangible assets totaling \$7.9 million and \$6.6 million on December 31, 2014 and 2013, respectively.

Amortization expense is recorded in selling, general and administrative expenses, except amortization expense related to capitalized software development costs which is recorded in cost of sales. Amortization expense by income statement caption was as follows:

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Cost of sales	\$ 153	\$ 213	\$ 312
Selling, general and administrative	4,009	3,914	3,862
Total amortization expense	\$ 4,162	\$ 4,127	\$ 4,174

Estimated future amortization expense related to our intangible assets at December 31, 2014, is as follows:

(In thousands)	
2015	\$ 4,153
2016	4,100
2017	4,015
2018	3,996
2019	3,995
Thereafter	4,355
Total	\$ 24,614

The remaining weighted average amortization period of our intangible assets is 6.2 years.

Note 8 — Line of Credit

On October 9, 2014, we extended the term of our Amended and Restated Credit Agreement ("Amended Credit Agreement") with U.S. Bank National Association ("U.S. Bank") to November 1, 2017. The Amended Credit Agreement provides for a \$55.0 million line of credit ("Credit Line") that 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, 2014.

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 0.00% to 0.50%). The applicable margins are calculated quarterly and vary based on our cash flow 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 and a maximum cash flow leverage ratio. In addition, the Amended Credit Agreement also contains other customary affirmative and negative covenants and events of default. As of December 31, 2014, we were in compliance with the covenants and conditions of the Amended Credit Agreement.

We had no interest expense on borrowings during the year ended December 31, 2014. Our total interest expense on borrowings was \$23 thousand and \$0.2 million during the years ended December 31, 2013 and 2012, respectively.

Note 9 — Income Taxes

Pre-tax income was attributed to the following jurisdictions:

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Domestic operations	\$ (2,793)	\$ 2,425	\$ (2,203)
Foreign operations	43,244	26,611	26,841
Total	\$ 40,451	\$ 29,036	\$ 24,638

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

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Current tax expense:			
U.S. federal	\$ 47	\$ 971	\$ (891)
State and local	49	254	(75)
Foreign	8,127	6,426	6,464
Total current	8,223	7,651	5,498
Deferred tax (benefit) expense:			
U.S. federal	(687)	(101)	(882)
State and local	74	(67)	3,630
Foreign	307	(1,410)	(161)
Total deferred	(306)	(1,578)	2,587
Total provision for income taxes	\$ 7,917	\$ 6,073	\$ 8,085

Net deferred tax assets were comprised of the following:

(In thousands)	December 31,	
	2014	2013
Deferred tax assets:		
Inventory reserves	\$ 904	\$ 1,582
Capitalized research costs	79	97
Capitalized inventory costs	684	920
Net operating losses	1,151	1,101
Acquired intangible assets	143	49
Accrued liabilities	4,168	4,215
Income tax credits	8,568	5,982
Stock-based compensation	1,749	2,260
Total deferred tax assets	17,446	16,206
Deferred tax liabilities:		
Depreciation	(4,402)	(4,679)
Allowance for doubtful accounts	(180)	(80)
Amortization of intangible assets	(2,154)	(2,583)
Other	(2,256)	(1,600)
Total deferred tax liabilities	(8,992)	(8,942)
Net deferred tax assets before valuation allowance	8,454	7,264
Less: Valuation allowance	(5,716)	(4,832)
Net deferred tax assets	\$ 2,738	\$ 2,432

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pre-tax income from operations as a result of the following:

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Tax provision at statutory U.S. rate	\$ 13,753	\$ 9,872	\$ 8,377
Increase (decrease) in tax provision resulting from:			
State and local taxes, net	(580)	(397)	(246)
Foreign tax rate differential	(7,150)	(3,804)	(3,488)
Nondeductible items	1,093	989	388
Federal research and development credits	(842)	(1,149)	(369)
Change in deductibility of social insurance	688	214	617
Valuation allowance	661	520	2,592
Other	294	(172)	214
Tax provision	\$ 7,917	\$ 6,073	\$ 8,085

At December 31, 2014, we had federal and state Research and Experimentation ("R&E") income tax credit carryforwards of approximately \$1.8 million and \$7.3 million, respectively. The federal R&E credits begin to expire in 2032. The state R&E income tax credits do not have an expiration date.

At December 31, 2014, we had federal, state and foreign net operating losses of approximately \$2.4 million, \$6.0 million and \$0.1 million, respectively. Included in the Company's U.S. net operating loss deferred tax assets above is approximately \$7.9 million of unrealized gross deferred tax assets attributable to excess tax benefits associated with stock-based compensation that will impact stockholders' equity if and when such excess benefits are ultimately realized. Of the federal and state net operating losses above, \$2.3 million and \$3.8 million, respectively, were acquired as part of our 2004 acquisition of SimpleDevices. The federal, state, and foreign net operating loss carryforwards begin to expire during 2024, 2018, and 2022, respectively.

Internal Revenue Code Section 382 places certain limitations on the annual amount of net operating loss carryforwards that may be utilized if certain changes to a company's ownership occur. Our 2004 acquisition of SimpleDevices was a change in ownership pursuant to Section 382 of the Internal Revenue Code, and the federal and state net operating loss carryforwards of SimpleDevices are limited but considered realizable in future periods. The annual federal limitation is approximately \$0.6 million for 2014 and thereafter.

At December 31, 2014, we assessed the realizability of our deferred tax assets by considering whether it is "more likely than not" some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We considered taxable income in carry-back years, the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. Due to uncertainties surrounding the realization of some of the Company's deferred tax assets, primarily including state R&E income tax credits generated during the prior years and current year, the Company established a valuation allowance against its deferred tax assets. When recognized, the tax benefits relating to any reversal of this valuation allowance will be recorded as a reduction of income tax expense. Accordingly, a valuation

allowance of \$3.9 million was recorded as of December 31, 2012 related to the state R&E deferred tax asset. The total valuation allowance increased by \$0.9 million and \$0.8 million as of December 31, 2014 and 2013, respectively.

During the year ended December 31, 2013 we recognized an increase to paid-in capital and a decrease to income taxes payable of \$0.9 million, related to the tax benefit from the exercise of non-qualified stock options and vesting of restricted stock under our stock-based incentive plans. During the year ended December 31, 2012 we recognized a decrease to paid-in capital and an increase to income taxes payable of \$0.1 million, related to the tax benefit from the exercise of non-qualified stock options and vesting of restricted stock under our stock-based incentive plans.

The undistributed earnings of our foreign subsidiaries are considered to be indefinitely reinvested. Accordingly, no provision for U.S. federal and state income taxes or foreign withholding taxes has been provided on such undistributed earnings. Determination of the potential amount of unrecognized deferred U.S. income tax liability and foreign withholding taxes is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits would be available to reduce some portion of the U.S. liability.

During 2012, China's State Administration of Taxation issued Circular 15 which required us to reevaluate our foreign deferred tax assets relating to our Chinese subsidiaries. These subsidiaries have recorded a deferred tax asset for social insurance and housing funds with the intent of being able to deduct these expenses once such liabilities have been settled. Circular 15 stipulates that payments into the aforementioned funds must be made within five years of recording the initial accrual or the tax deduction for these expenses will be forfeited. At December 31, 2014, we evaluated fund payments made prior to the preceding five years and determined that \$0.7 million of our foreign deferred tax assets would not provide a future tax benefit due to the change in Chinese law. In adhering to the new law, we recorded increases to income tax expense of \$0.7 million, \$0.2 million and \$0.6 million for the years ended December 31, 2014, 2013 and 2012, respectively, relating to decreases in the deferred tax assets of our Chinese subsidiaries.

Uncertain Tax Positions

At December 31, 2014 and 2013, we had unrecognized tax benefits of approximately \$3.6 million and \$3.6 million, including interest and penalties, respectively. In accordance with accounting guidance, we have elected to classify interest and penalties as components of tax expense. Interest and penalties were \$0.2 million, \$0.1 million, and \$0.1 million for the years ended December 31, 2014, 2013 and 2012, respectively. Interest and penalties are included in the unrecognized tax benefits.

Our gross unrecognized tax benefits at December 31, 2014, 2013 and 2012, and the changes during those years then ended, were as follows:

(In thousands)	2014	2013	2012
Beginning balance	\$ 3,490	\$ 5,006	\$ 5,387
Additions as a result of tax provisions taken during the current year	213	357	261
Subtractions as a result of tax provisions taken during the prior year	(150)	(126)	(346)
Foreign currency translation	(8)	45	—
Lapse in statute of limitations	(59)	(63)	(296)
Settlements	—	(1,729)	—
Ending balance	\$ 3,486	\$ 3,490	\$ 5,006

Approximately \$3.2 million, \$3.2 million and \$4.7 million of the total amount of gross unrecognized tax benefits at December 31, 2014, 2013 and 2012, respectively, would affect the annual effective tax rate, if recognized. We are unaware of any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change within the next twelve months. We anticipate a decrease in gross unrecognized tax benefits of approximately \$0.5 million within the next twelve months based on federal, state, and foreign statute expirations in various jurisdictions. We have classified uncertain tax positions as non-current income tax liabilities unless expected to be paid within one year.

We file income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. At December 31, 2014, the open statutes of limitations for our significant tax jurisdictions are the following: federal are 2011 through 2013, state are 2010 through 2013 and foreign are 2008 through 2013.

Note 10 — Accrued Compensation

The components of accrued compensation were as follows:

(In thousands)	December 31,	
	2014	2013
Accrued social insurance ⁽¹⁾	\$ 19,941	\$ 20,492
Accrued salary/wages	6,114	5,324
Accrued vacation/holiday	2,222	2,113
Accrued bonus ⁽²⁾	8,492	7,186
Accrued commission	1,797	1,350
Accrued medical insurance claims	236	201
Other accrued compensation	1,854	1,651
Total accrued compensation	\$ 40,656	\$ 38,317

⁽¹⁾ Effective January 1, 2008, the Chinese Labor Contract Law was enacted in the PRC. This law mandated that PRC employers remit the applicable social insurance payments to their local government. Social insurance is comprised of various components such as pension, medical insurance, job injury insurance, unemployment insurance, and a housing assistance fund, and is administered in a manner similar to social security in the United States. This amount represents our estimate of the amounts due to the PRC government for social insurance on December 31, 2014 and 2013.

⁽²⁾ Accrued bonus includes an accrual for an extra month of salary ("13th month salary") to be paid to employees in certain geographies where it is the customary business practice. This 13th month salary is paid to these employees if they remain employed with us through December 31st. The total accrued for the 13th month salary was \$0.6 million and \$0.6 million at December 31, 2014 and 2013, respectively.

Note 11 — Other Accrued Expenses

The components of other accrued expenses were as follows:

(In thousands)	December 31,	
	2014	2013
Advertising and marketing	\$ 174	\$ 238
Deferred revenue	648	—
Duties	947	797
Freight and handling fees	1,522	1,581
Product development	751	614
Product warranty claim costs	353	41
Professional fees	1,493	1,757
Sales taxes and VAT	2,057	1,637
Third-party commissions	553	511
Tooling ⁽¹⁾	1,089	758
Unrealized loss on foreign currency exchange futures contracts	113	2
Utilities	275	311
Other	3,383	2,982
Total other accrued expenses	\$ 13,358	\$ 11,229

⁽¹⁾ The tooling accrual balance relates to unearned revenue for tooling that will be sold to customers.

Note 12 — Leases

We lease land, office and warehouse space, and certain office equipment under operating leases that expire at various dates through November 30, 2060. Rent expense for our operating leases was \$3.7 million, \$3.5 million and \$3.7 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Estimated future minimum non-cancelable operating lease payments at December 31, 2014 were as follows:

(In thousands)	Amount
2015	\$ 3,035
2016	2,585
2017	2,179
2018	1,662
2019	886
Thereafter	2,591
Total operating lease commitments	<u>\$ 12,938</u>

Non-level Rents and Lease Incentives

Some of our leases are subject to rent escalations. For these leases, we recognize rent expense for the total contractual obligation utilizing the straight-line method over the lease term, ranging from 48 months to 125 months. The related short term liability is recorded in other accrued expenses (see Note 11) and the related long term liability is recorded in other long term liabilities. The total liability related to rent escalations was \$1.1 million and \$1.0 million at December 31, 2014 and 2013, respectively.

The lease agreement for our corporate headquarters contains an allowance for moving expenses and tenant improvements of \$1.5 million. These moving and tenant improvement allowances are recorded within other accrued expenses and other long term liabilities, depending on the short term or long term nature, and are being amortized as a reduction of rent expense over the 125-month term of the lease, which began on May 15, 2012.

Rental Costs During Construction

Rental costs associated with operating leases incurred during a construction period are expensed.

Prepaid Leases

We operate two factories within the PRC on which the land is leased from the government as of December 31, 2014. These land leases were prepaid to the PRC government at the time our subsidiary occupied the land. We have obtained land-use right certificates for the land pertaining to these factories.

The first factory is located in the city of Guangzhou in the Guangdong province. The remaining net book value of this prepaid lease was \$1.4 million on December 31, 2014, and will be amortized on a straight-line basis over approximately 15 years. The buildings located on this land had a net book value of \$13.4 million on December 31, 2014 and will be depreciated over a remaining weighted average period of 17 years.

The second factory is located in the city of Yangzhou in the Jiangsu province. The remaining net book value of this prepaid lease was \$2.8 million on December 31, 2014, and will be amortized on a straight-line basis over the remaining term of approximately 44 years. The buildings located on this land had a net book value of \$23.6 million on December 31, 2014 and will be depreciated over a remaining weighted average period of 25 years.

Note 13 — Commitments and Contingencies

Indemnifications

We indemnify our directors and officers to the maximum extent permitted under the laws of the state of Delaware and we have entered into indemnification agreements with each of our directors and executive officers. In addition, we insure our individual directors and officers against certain claims and attorney's fees and related expenses incurred in connection with the defense of such claims. The amounts and types of coverage may vary from period to period as dictated by market conditions. Management is not aware of any matters that require indemnification of its officers or directors.

Fair Price Provisions and Other Anti-Takeover Measures

Our Restated Certificate of Incorporation, as amended, contains certain provisions restricting business combinations with interested stockholders under certain circumstances and imposing higher voting requirements for the approval of certain transactions ("fair price" provisions). Any of these provisions may delay or prevent a change in control.

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

Product Warranties

Changes in the liability for product warranty claim costs were as follows:

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Balance at beginning of period	\$ 41	\$ 404	\$ 6
Accruals for warranties issued during the period	1,178	416	398
Settlements (in cash or in kind) during the period	(866)	(779)	—
Balance at end of period	\$ 353	\$ 41	\$ 404

Litigation

On March 2, 2012, we filed a lawsuit against Universal Remote Control, Inc. ("URC") in the United States District Court, Central District of California (Universal Electronics Inc. v. Universal Remote Control, Inc., SACV12-0039 AG (JPRx)) alleging that URC was infringing, directly and indirectly, four of our patents related to remote control technology. We alleged that this complaint related to multiple URC remote control products, including the URC model numbers UR5U-9000L, WR7 and other remote controls with different model names or numbers, but with substantially the same designs, features, and functionalities. We sought monetary relief for

the infringement, including enhanced damages due to the willfulness of URC's actions, injunctive relief to enjoin URC from further infringing, including contributory infringement and/or inducing infringement, and attorney's fees. URC denied infringing our patents and asserted a variety of counterclaims and affirmative defenses including invalidity and unenforceability of our patents, misuse of patents, and a breach of contract action stemming from the settlement by us of an earlier lawsuit against URC. On January 29, 2013, the Court held its "Markman" hearing and on February 1, 2013, the Court issued its ruling that four of the 24 claims we asserted against URC were invalid, effectively removing one of the four patents alleged by us to be infringed by URC from this litigation. In March 2014, the Court further narrowed the scope of this litigation granting URC's motion for summary judgment with respect to certain issues that effectively removed two additional patents. In March 2014, the Court also granted our motion for summary judgment on certain of URC's defenses and counterclaims, including URC's counterclaim for breach of contract. A trial was held from May 6, 2014 through May 20, 2014, and the jury returned a verdict that URC did not infringe on our remaining patent, and found for URC on patent validity and several equitable defenses in the lawsuit, although the jury's verdict on the equitable defenses was advisory in nature. A hearing on motions pertaining to the jury's verdict was held on August 18, 2014. On December 16, 2014, the Court entered its findings of fact and conclusions of law on the equitable issues and determined that our assertion of URC's infringement of one of the patents at issue was barred by laches, but not by equitable estoppel or patent misuse. Further, the Court determined that our right to seek relief was not barred by unclean hands and on January 27, 2015, final judgment was entered by the Court accepting the jury's verdict pertaining to invalidity, non-infringement, marking, and the equitable defense of laches and ordered us to pay URC's costs of litigation, exclusive of attorney's fees, estimated to be immaterial in amount. On January 22, 2015, URC filed a motion seeking to recover its attorney's fees incurred in connection with its defense of this lawsuit. We are opposing this motion. A hearing is scheduled for March 9, 2015 on this motion and at the present time, we cannot determine the likely outcome of this motion nor can we estimate the amount URC may claim or ultimately what amount, if any, the Court may award, which could be significant. On February 26, 2015, URC filed its notice of appeal with respect to rulings against it pertaining to the issues of patent misuse, unclean hands, implied license and all adverse orders, decisions, and opinions rulings of the Court, which appeal we will vigorously defend against. Further, we are currently evaluating whether to appeal any of the issues decided by the Court.

On June 28, 2013, we filed a second lawsuit against URC, also in the United States District Court, Central District of California (Universal Electronics Inc. v. Universal Remote Control, Inc., SACV13-00987 JAK (SHx)). In this second lawsuit, we are alleging that URC is infringing, directly and indirectly, ten additional patents that we own related to remote control technology. As in the first lawsuit, in this second lawsuit we have alleged that this complaint relates to multiple URC remote control products. We are seeking monetary relief for infringement, including enhanced damages due to the willfulness of URC's actions, injunctive relief to enjoin URC from further infringing, including contributory infringement and/or inducing infringement, and attorney's fees. In mid-July 2013, URC filed a Notice of Related Cases seeking to join this lawsuit with the lawsuit we filed against URC on March 2, 2012 and we did not object to this Notice. Consequently, this lawsuit was transferred to the Judge and Magistrate hearing our first lawsuit filed against URC. In addition, URC answered this complaint with a denial of infringement, asserting affirmative defenses, and seeking a ruling that URC has not infringed our patents, that our patents are invalid and unenforceable, that the patents have been licensed to URC, and an award of attorneys' fees and costs. In mid-November 2013, we filed a motion to add affiliated URC suppliers, Ohsung Electronics Co, Ltd, a South Korean entity, and Ohsung Electronics USA, Inc., a California entity, (collectively "Ohsung"), to the lawsuit. In February 2014, Ohsung answered and counterclaimed with a general denial of wrongdoing and asserted the standard affirmative defenses of non-infringement, invalidity and unenforceability of our patents and breach of contract action stemming from the settlement by us of an earlier lawsuit against URC. In March 2014, we answered by disputing Ohsung's defenses and with a general denial of Ohsung's breach of contract complaint. In late June and early July of 2014, URC and Ohsung requested inter partes review ("IPR") with the US Patent and Trademark Office ("Patent Office" or "USPTO") for each of the ten patents pending in the second URC lawsuit. We intend to vigorously defend each patent before the Patent Office. During December 2014 and January 2015, the Patent Office issued its decisions on URC's petitions and accepted for review all claims at issue with respect to five of the patents, certain claims at issue with respect to two of the patents and denied in full the request to review the other three patents at issue. We are presently reviewing the Patent Office's decisions to determine our next steps which could include appealing the Patent Office's acceptance of some or all of the seven patents and/or defending the patents in front of the USPTO. While the Patent Office was considering the IPR requests, this second lawsuit was stayed by the Court. On March

2, 2015, the parties filed a Joint Stipulation agreeing that the stay continue while the Patent Office decides the IPRs, which decisions are not expected until January 2016.

On September 23, 2013, we filed a lawsuit against Peel Technologies, Inc. ("Peel") in the United States District Court, Central District of California (Universal Electronics Inc. v. Peel Technologies, Inc., SACV13-01484 GAF (RNBx)) alleging that Peel is infringing, directly and indirectly, five of our patents related to remote control technology. We have alleged that this complaint relates to software and hardware used in connection with remote control devices, including Peel's software products called "TV App" (sometimes referred to as "Sense TV"), "WatchOn App" and "Peel Smart Remote App," and a product called "Peel Universal Remote" consisting of a Peel "Fruit" hardware device and a software component for use with the iOS operating system. We are seeking monetary relief for the infringement, including enhanced damages due to the willfulness of Peel's actions, injunctive relief to enjoin Peel from further infringement, including contributory infringement and/or inducing infringement, and attorney's fees. On November 14, 2013, Peel answered our complaint with a general denial that it is infringing our patents and has filed counter-claims, seeking declaratory judgments that our patents are not infringed and are invalid. They are also seeking attorney's fees. In our reply to Peel's counterclaims, which we filed on December 5, 2013, we asked the Court to deny and dismiss with prejudice Peel's counterclaims and sought after relief. In April 2014, both parties were granted leave by the court to amend the pleadings in the case. We added four additional patents related to remote control technology, and Peel filed a counterclaim against us alleging we are infringing one patent related to remote control technology which they recently acquired. We answered Peel's counterclaim with a general denial of infringement and added our affirmative defenses of non-infringement, invalidity and unenforceability. A "Markman" hearing was held August 13, 2014 and the Court issued a ruling on September 17, 2014 which we believe supports our current claims of infringement against Peel. On November 10, 2014, the parties entered into a confidential settlement agreement in which the parties agreed to dismiss their respective patent infringement claims against each other without prejudice. This settlement had no impact on our consolidated financial condition, results of operations or cash flows. As part of this agreement, Peel agreed to modify and update its products to avoid our allegations of infringement. We intend to review any updated versions of the Peel products to determine their compliance with our agreement, and will determine an appropriate course of action following such review which we anticipate will take place within the first quarter of 2015.

In March 2014, two of our subsidiaries, Gemstar Technology (China) Co. Ltd. and Gemstar Technology (Yangzhou) Co. Ltd., each filed arbitration requests in Hong Kong under the arbitration rules of the Hong Kong International Arbitration Centre (the "HKIAC") against Dongguan City Liwang Battery Co. Ltd. ("LiWang"). In these requests, our subsidiaries claimed that LiWang supplied defective batteries and sought damages incurred as a result. LiWang opposed jurisdiction under the HKIAC and, in turn, filed claims against Gemstar Technology (China) Co. Ltd. in the People's Court of Panyu District, and against Gemstar Technology (Yangzhou) Co., Ltd. in the People's Court of Bao Ying District, each alleging breach of contract and that jurisdiction should be in China. We opposed these claims and were awaiting a final ruling by the China Courts. On August 29, 2014, the parties entered into a confidential Settlement Agreement whereby the parties each agreed to withdraw and terminate with prejudice and settle all of their respective claims and actions against the other parties. The settlement of this matter did not have a material impact on our consolidated financial condition, results of operations or cash flows.

There are no other material pending legal proceedings to which we or any of our subsidiaries is a party or of which our respective property is the subject. However, as is typical in our industry and to the nature and kind of business in which we are engaged, from time to time, various claims, charges and litigation are asserted or commenced by third parties against us or by us against third parties arising from or related to product liability, infringement of patent or other intellectual property rights, breach of warranty, contractual relations, or employee relations. The amounts claimed may be substantial but may not bear any reasonable relationship to the merits of the claims or the extent of any real risk of court awards assessed against us or in our favor. However, no assurances can be made as to the outcome of any of these matters, nor can we estimate the range of potential losses to us. In our opinion, final judgments, if any, which might be rendered against us in potential or pending litigation would not have a material adverse effect on our financial condition, results of operations, or cash flows. Moreover, we believe that our products do not infringe any third parties' patents or other intellectual property rights.

We maintain directors' and officers' liability insurance which insures our individual directors and officers against certain claims, as well as attorney's fees and related expenses incurred in connection with the defense of such claims.

Defined Benefit Plan

Our subsidiary in India maintains a defined benefit pension plan ("India Plan") for local employees, which is consistent with local statutes and practices. The pension plan was adequately funded on December 31, 2014 based on its latest actuarial report. The India Plan has an independent external manager that advises us of the appropriate funding contribution requirements to which we comply. At December 31, 2014, approximately 39 percent of our India subsidiary employees had qualified for eligibility. An individual must be employed by our India subsidiary for a minimum of 5 years before becoming eligible. Upon the termination, resignation or retirement of an eligible employee, we are liable to pay the employee an amount equal to 15 days salary for each full year of service completed. The total amount of liability outstanding at December 31, 2014 and 2013 for the India Plan was not material. During the years ended December 31, 2014, 2013, and 2012, the net periodic benefit costs were also not material.

Note 14 — Treasury Stock

Repurchased shares of our common stock were as follows:

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Shares repurchased	384	153	201
Cost of shares repurchased	\$ 16,168	\$ 3,607	\$ 3,451

Repurchased shares are recorded as shares held in treasury at cost. We hold these shares for future use as management and the Board of Directors deem appropriate, which has included compensating our outside directors. During the years ended December 31, 2014, 2013, and 2012, we issued 15,000, 30,000, and 37,500 shares from treasury, respectively, to outside directors for services performed (see Note 16).

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, 2014, we had 1,067,655 shares available for repurchase under the Board's authorizations.

Note 15 — Business Segment and Foreign Operations

Reportable Segment

An operating segment, in part, is a component of an enterprise whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Operating segments may be aggregated only to a limited extent. Our chief operating decision maker, the Chief Executive Officer, reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues for purposes of making operating decisions and assessing financial performance. Accordingly, we only have a single operating and reportable segment.

Foreign Operations

Our net sales to external customers by geographic area were as follows:

(In thousands)	Year Ended December 31,		
	2014	2013	2012
United States	\$ 201,579	\$ 195,308	\$ 165,209
Asia (excluding PRC)	129,614	107,886	108,979
People's Republic of China	98,057	89,918	76,873
Europe	70,663	72,852	61,617
Latin America	38,912	35,179	28,677
Other	23,504	28,211	21,735
Total net sales	\$ 562,329	\$ 529,354	\$ 463,090

Specific identification of the customer billing location was the basis used for attributing revenues from external customers to geographic areas.

Long-lived tangible assets by geographic area were as follows:

(In thousands)	December 31,	
	2014	2013
United States	\$ 5,716	\$ 4,662
People's Republic of China	70,619	72,957
All other countries	5,271	3,230
Total long-lived tangible assets	\$ 81,606	\$ 80,849

Note 16 — Stock-Based Compensation

Stock-based compensation expense for each employee and director is presented in the same income statement caption as their cash compensation. Stock-based compensation expense by income statement caption and the related income tax benefit were as follows:

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Cost of sales	\$ 16	\$ 1	\$ —
Research and development	323	226	223
Selling, general and administrative:			
Employees	4,927	4,494	3,733
Outside directors	1,178	621	619
Total stock-based compensation expense	\$ 6,444	\$ 5,342	\$ 4,575
Income tax benefit	\$ 1,897	\$ 1,575	\$ 1,488

Stock Options

The assumptions we utilized in the Black-Scholes option pricing model and the resulting weighted average fair value of stock option grants were the following:

	Year Ended December 31,		
	2014	2013	2012
Weighted average fair value of grants ⁽¹⁾	\$ 13.64	\$ 9.26	\$ 9.57
Risk-free interest rate	1.29 %	0.95 %	0.86 %
Expected volatility	44.84 %	53.39 %	55.22 %
Expected life in years	4.56	5.20	5.15

⁽¹⁾ The weighted average fair value of grants was calculated utilizing the stock options granted during each respective period.

Stock option activity was as follows:

	2014				2013				2012			
	Number of Options (in 000's)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Terms (in years)	Aggregate Intrinsic Value (in 000's)	Number of Options (in 000's)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Terms (in years)	Aggregate Intrinsic Value (in 000's)	Number of Options (in 000's)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Terms (in years)	Aggregate Intrinsic Value (in 000's)
Outstanding at beginning of the year	924	\$ 22.04			1,412	\$ 20.56			1,502	\$ 19.53		
Granted	133	35.28			201	19.68			153	19.92		
Exercised	(391)	20.76		\$ 10,651	(679)	18.22		\$ 8,355	(189)	11.62		\$ 1,155
Forfeited/canceled/expired	(16)	20.77			(10)	24.75			(54)	21.48		
Outstanding at end of the year ⁽¹⁾	650	\$ 25.56	5.59	\$ 25,653	924	\$ 22.04	6.09	\$ 14,854	1,412	\$ 20.56	4.91	\$ 2,452
Vested and expected to vest at the end of the year ⁽¹⁾	649	\$ 25.57	5.58	\$ 25,618	921	\$ 22.05	6.08	\$ 14,791	1,409	\$ 20.56	4.90	\$ 2,446
Exercisable at the end of the year ⁽¹⁾	421	\$ 23.84	4.87	\$ 17,345	671	\$ 22.62	5.14	\$ 10,388	1,181	\$ 20.24	4.25	\$ 2,347

⁽¹⁾ The aggregate intrinsic value represents the total pre-tax value (the difference between our closing stock price on the last trading day of 2014, 2013, and 2012 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had they all exercised their options on December 31, 2014, 2013, and 2012. This amount will change based on the fair market value of our stock.

During the years ended December 31, 2014, 2013, and 2012, there were no modifications made to outstanding stock options.

Cash received from option exercises for the years ended December 31, 2014, 2013, and 2012 was \$8.1 million, \$12.4 million, and \$2.2 million, respectively. The actual tax benefit realized from option exercises was \$3.1 million, \$2.3 million and \$0.2 million for the years ended December 31, 2014, 2013, and 2012, respectively.

Significant option groups outstanding at December 31, 2014 and the related weighted average exercise price and life information were as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding (in 000's)	Weighted-Average Remaining Years of Contractual Life	Weighted-Average Exercise Price	Number Exercisable (in 000's)	Weighted-Average Exercise Price
\$16.64 to \$17.60	9	0.39	\$ 17.43	9	\$ 17.43
18.25 to 21.95	319	6.44	20.17	223	20.42
24.91 to 29.25	184	4.04	28.00	184	28.00
35.28 to 35.35	138	6.01	35.28	5	35.35
	650	5.59	\$ 25.56	421	\$ 23.84

As of December 31, 2014, we expect to recognize \$2.1 million of total unrecognized pre-tax stock-based compensation expense related to non-vested stock options over a remaining weighted-average life of 1.8 years.

On February 12, 2015, the Board of Directors granted certain executive employees 73,680 stock options in connection with the 2014 annual review cycle. The options were granted as part of long-term incentive compensation to assist us in meeting our performance and retention objectives and are subject to a three-year vesting period (33.33% on February 12, 2016 and 8.33% each quarter thereafter). The total grant date fair value of these awards was \$1.8 million.

Restricted Stock

Non-vested restricted stock award activity was as follows:

	Shares Granted (in 000's)	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2011	205	\$ 24.43
Granted	205	15.22
Vested	(133)	21.91
Forfeited	(7)	23.11
Non-vested at December 31, 2012	270	18.72
Granted	196	28.86
Vested	(178)	20.44
Forfeited	(3)	15.49
Non-vested at December 31, 2013	285	24.64
Granted	155	51.29
Vested	(171)	25.78
Forfeited	(3)	37.78
Non-vested at December 31, 2014	266	\$ 39.28

As of December 31, 2014, we expect to recognize \$9.5 million of total unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards over a weighted-average life of 2.3 years.

On February 12, 2015, the Board of Directors granted certain executive employees 27,845 restricted stock awards in connection with the 2014 annual review cycle. The awards were granted as part of long-term incentive compensation to assist us in meeting our performance and retention objectives and are subject to a three-year vesting period (33.33% on February 12, 2016 and 8.33% each quarter thereafter). The total grant date fair value of these awards was \$1.8 million.

Stock Incentive Plans

Our active stock-based incentive plans include those adopted in 1998, 1999, 2002, 2003, 2006, 2010 and 2014 ("Stock Incentive Plans"). Under the Stock Incentive Plans, we may grant stock options, stock appreciation rights, restricted stock units, performance stock units, or any combination thereof for a period of ten years from the approval date of each respective plan, unless the plan is terminated by resolution of our Board of Directors. No stock appreciation rights or performance stock units have been awarded under our Stock Incentive Plans. Only directors and employees meeting certain employment qualifications are eligible to receive stock-based awards.

The grant price of stock option and restricted stock awards granted under our Stock Incentive Plans is the average of the high and low trades of our stock on the grant date. We prohibit the re-pricing or backdating of stock options. Our stock options become exercisable in various proportions over a three- or four-year time frame. Stock options have a maximum ten-year term. Restricted stock awards vest in various proportions over a one- to three-year time period.

Detailed information regarding our active Stock Incentive Plans was as follows at December 31, 2014:

Name	Approval Date	Initial Shares Available for Grant Under the Plan	Remaining Shares Available for Grant Under the Plan	Outstanding Shares Granted Under the Plan
1998 Stock Incentive Plan	5/27/1998	630,000	—	5,000
1999A Stock Incentive Plan	10/7/1999	1,000,000	—	22,500
2002 Stock Incentive Plan	2/5/2002	1,000,000	—	13,480
2003 Stock Incentive Plan	6/18/2003	1,000,000	—	77,556
2006 Stock Incentive Plan	6/13/2006	1,000,000	2,250	201,247
2010 Stock Incentive Plan	6/15/2010	1,000,000	49,164	509,260
2014 Stock Incentive Plan	6/12/2014	1,100,000	998,000	87,000
			1,049,414	916,043

Note 17 — Other Income (Expense), Net

Other income (expense), net consisted of the following:

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Net gain (loss) on foreign currency exchange contracts ⁽¹⁾	\$ (491)	\$ 888	\$ 35
Net gain (loss) on foreign currency exchange transactions	(363)	(4,155)	(1,721)
Other income	14	98	273
Other income (expense), net	\$ (840)	\$ (3,169)	\$ (1,413)

⁽¹⁾ This represents the gains and (losses) incurred on foreign currency hedging derivatives (see Note 19 for further details).

Note 18 — Earnings Per Share

Earnings per share was calculated as follows:

(In thousands, except per-share amounts)	Year Ended December 31,		
	2014	2013	2012
BASIC			
Net income	\$ 32,534	\$ 22,963	\$ 16,553
Weighted-average common shares outstanding	15,781	15,248	14,952
Basic earnings per share	\$ 2.06	\$ 1.51	\$ 1.11
DILUTED			
Net income	\$ 32,534	\$ 22,963	\$ 16,553
Weighted-average common shares outstanding for basic	15,781	15,248	14,952
Dilutive effect of stock options and restricted stock	371	353	158
Weighted-average common shares outstanding on a diluted basis	16,152	15,601	15,110
Diluted earnings per share	\$ 2.01	\$ 1.47	\$ 1.10

The number of stock options and shares of restricted stock excluded from the computation of diluted earnings per common share were as follows:

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Stock options	52	366	1,038
Restricted stock awards	10	18	166

Note 19 — Derivatives

We periodically enter into foreign currency exchange contracts with terms normally lasting less than nine months to protect against the adverse effects that exchange-rate fluctuations may have on our foreign currency-denominated receivables, payables, cash flows and reported income. We are exposed to market risks from foreign currency exchange rates, which may adversely affect our operating results and financial position. Our foreign currency exposures are primarily concentrated in the Argentinian Peso, Brazilian Real, British Pound, Chinese Yuan Renminbi, Euro, Hong Kong Dollar, Indian Rupee, and Singapore Dollar. Derivative financial instruments are used to manage risk and are not used for trading or other speculative purposes. We do not use leveraged derivative financial instruments and these derivatives have not qualified for hedge accounting.

Gains and losses on derivatives are recorded in other income (expense), net. Derivatives are recorded on the balance sheet at fair value. The estimated fair values of our derivative financial instruments represent the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices. We have determined that the fair value of our derivatives are derived from level 2 inputs in the fair value hierarchy. The following table sets forth the fair value of derivatives:

(In thousands)	December 31, 2014				December 31, 2013			
	Fair Value Measurement Using			Total Balance	Fair Value Measurement Using			Total Balance
	(Level 1)	(Level 2)	(Level 3)		(Level 1)	(Level 2)	(Level 3)	
Foreign currency exchange futures contracts	\$ —	\$ 810	\$ —	\$ 810	\$ —	\$ 509	\$ —	\$ 509

We held foreign currency exchange contracts which resulted in a net pre-tax loss of approximately \$0.5 million, a net pre-tax gain of approximately \$0.9 million, and a net pre-tax gain of \$35 thousand for the years ended December 31, 2014, 2013, and 2012, respectively.

Details of foreign currency exchange contracts held were as follows:

Date Held	Type	Position Held	Notional Value (in millions)	Forward Rate	Gain/(Loss) Recorded at Balance Sheet Date (in thousands) ⁽¹⁾	Settlement Date
December 31, 2014	USD/Euro	USD	\$ 5.0	1.2450	\$ 140	January 23, 2015
December 31, 2014	USD/Chinese Yuan Renminbi	Chinese Yuan Renminbi	\$ 20.0	6.2757	\$ 174	January 16, 2015
December 31, 2014	USD/Brazilian Real	USD	\$ 5.0	2.3401	\$ 609	January 16, 2015
December 31, 2014	USD/Brazilian Real	Brazilian Real	\$ 2.5	2.5442	\$ (113)	January 16, 2015
December 31, 2013	USD/Euro	Euro	\$ 11.0	1.3782	\$ (2)	January 31, 2014
December 31, 2013	USD/Chinese Yuan Renminbi	Chinese Yuan Renminbi	\$ 15.0	6.2047	\$ 358	January 15, 2014
December 31, 2013	USD/Brazilian Real	USD	\$ 3.0	2.3442	\$ 34	January 17, 2014
December 31, 2013	USD/Brazilian Real	USD	\$ 2.0	2.2301	\$ 119	January 17, 2014

⁽¹⁾ Gains on futures contracts are recorded in prepaid expenses and other current assets. Losses on futures contracts are recorded in other accrued expenses.

Note 20 — Employee Benefit Plans

We maintain a retirement and profit sharing plan under Section 401(k) of the Internal Revenue Code for all of our domestic employees that meet certain qualifications. Participants in the plan may elect to contribute up to the maximum allowed by law. We match 50% of the participants' contributions up to 15% of their gross salary in the form of newly issued shares of our common stock. We may also make other discretionary contributions to the plan. We recorded \$0.8 million, \$0.7 million and \$0.6 million of expense for company contributions for the years ended December 31, 2014, 2013, and 2012, respectively.

Note 21 — Quarterly Financial Data (Unaudited)

Summarized quarterly financial data is as follows:

(In thousands, except per share amounts)	2014			
	March 31,	June 30,	September 30,	December 31,
Net sales	\$ 129,845	\$ 146,315	\$ 147,780	\$ 138,389
Gross profit	36,546	43,558	45,115	41,681
Operating income	5,990	11,674	13,785	9,831
Net income	4,273	8,488	10,871	8,902
Earnings per share ⁽¹⁾ :				
Basic	\$ 0.27	\$ 0.54	\$ 0.69	\$ 0.56
Diluted	\$ 0.26	\$ 0.53	\$ 0.68	\$ 0.55
Shares used in computing earnings per share:				
Basic	15,787	15,784	15,723	15,831
Diluted	16,163	16,141	16,103	16,204

(In thousands, except per share amounts)	2013			
	March 31,	June 30,	September 30,	December 31,
Net sales	\$ 114,722	\$ 136,109	\$ 142,389	\$ 136,134
Gross profit	32,549	37,836	40,449	40,628
Operating income	3,895	9,976	10,471	7,812
Net income	2,946	5,841	8,623	5,553
Earnings per share ⁽¹⁾ :				
Basic	\$ 0.20	\$ 0.39	\$ 0.56	\$ 0.36
Diluted	\$ 0.19	\$ 0.38	\$ 0.55	\$ 0.35
Shares used in computing earnings per share:				
Basic	14,965	15,098	15,324	15,602
Diluted	15,225	15,419	15,743	16,011

⁽¹⁾ The earnings per common share calculations for each of the quarters were based upon the weighted average number of shares and share equivalents outstanding during each period, and the sum of the quarters may not be equal to the full year earnings per share amounts.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Exchange Act Rule 13a-15(d) defines "disclosure controls and procedures" to mean controls and procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. The definition further states that disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

An evaluation was performed under the supervision and with the participation of our management, including our principal executive and principal financial officers, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this report, to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management to allow timely decisions regarding required disclosures.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive and principal financial officers, we evaluated the effectiveness of our internal control over financial reporting based on the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control Integrated Framework. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in its attestation report which is included herein.

Changes in Internal Control Over Financial Reporting

There have been no changes in internal controls or in other factors that may significantly affect our internal controls during 2014.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Universal Electronics Inc.

We have audited the internal control over financial reporting of Universal Electronics Inc. (a Delaware corporation) (the "Company") as of December 31, 2014, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2014, and our report dated March 5, 2015 expressed an unqualified opinion on those financial statements.



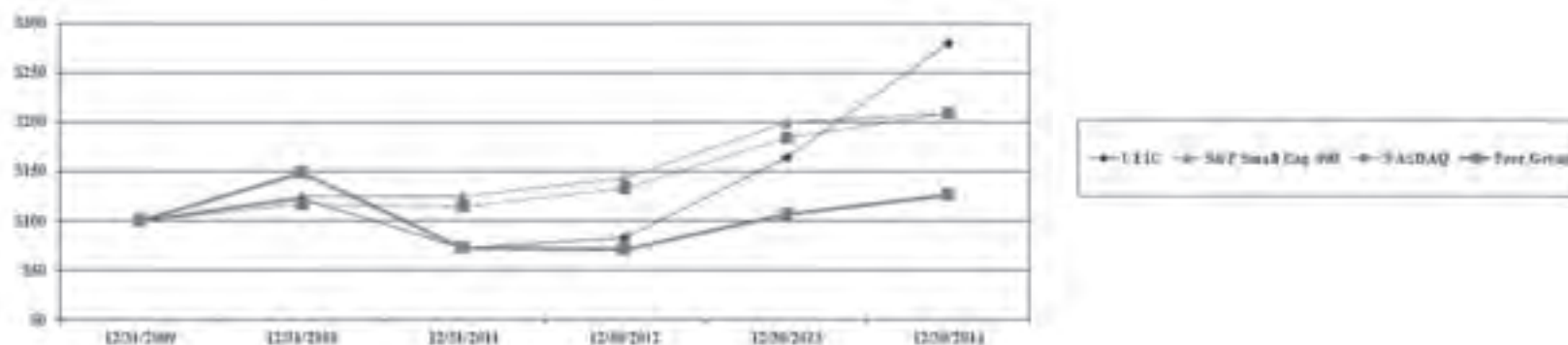
Los Angeles, California
March 5, 2015

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, 2014. The comparison assumes that \$100 is invested on December 31, 2009 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.

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



	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Universal Electronics Inc.	\$ 100	\$ 122	\$ 73	\$ 83	\$ 164	\$ 280
S&P Small Cap 600	\$ 100	\$ 125	\$ 125	\$ 143	\$ 200	\$ 209
NASDAQ Composite Index	\$ 100	\$ 117	\$ 115	\$ 133	\$ 184	\$ 209
Peer Group Index ⁽¹⁾	\$ 100	\$ 148	\$ 73	\$ 71	\$ 106	\$ 126

⁽¹⁾ 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, 2009 through 2014. 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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