

UNIVERSAL ELECTRONICS INC  
Form 10-Q  
August 08, 2017  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 0-21044

UNIVERSAL ELECTRONICS INC.  
(Exact Name of Registrant as Specified in its Charter)

Delaware 33-0204817  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

201 E. Sandpointe Avenue, 8<sup>th</sup> Floor 92707  
Santa Ana, California  
(Address of Principal Executive Offices) (Zip Code)  
Registrant's telephone number, including area code: (714) 918-9500

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, any Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 14,401,295 shares of Common Stock, par value \$0.01 per share, of the registrant were outstanding on August 4, 2017.

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UNIVERSAL ELECTRONICS INC.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. Consolidated Financial Statements (Unaudited)

## UNIVERSAL ELECTRONICS INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share-related data)

(Unaudited)

	June 30, 2017	December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$49,695	\$ 50,611
Restricted cash	—	4,623
Accounts receivable, net	147,738	124,592
Inventories, net	143,417	129,879
Prepaid expenses and other current assets	7,593	7,439
Income tax receivable	4,133	1,054
Deferred income taxes	—	5,960
Total current assets	352,576	324,158
Property, plant, and equipment, net	112,276	105,351
Goodwill	48,372	43,052
Intangible assets, net	31,619	28,549
Deferred income taxes	18,270	10,430
Long-term restricted cash	4,716	4,600
Other assets	4,997	4,896
Total assets	\$572,826	\$ 521,036
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 110,050	\$ 97,157
Line of credit	92,000	49,987
Accrued compensation	33,520	35,580
Accrued sales discounts, rebates and royalties	7,153	8,358
Accrued income taxes	1,670	375
Other accrued expenses	20,294	24,410
Total current liabilities	264,687	215,867
Long-term liabilities:		
Long-term contingent consideration	12,600	10,500
Deferred income taxes	6,269	7,060
Income tax payable	791	791
Other long-term liabilities	6,299	6,308
Total liabilities	290,646	240,526
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; 23,661,566 and 23,575,340 shares issued on June 30, 2017 and December 31, 2016, respectively	237	236
Paid-in capital	258,732	250,481
Treasury stock, at cost, 9,262,057 and 9,022,587 shares on June 30, 2017 and December 31, 2016, respectively	(237,865 )	(222,980 )
Accumulated other comprehensive income (loss)	(20,830 )	(22,821 )

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Retained earnings	281,906	275,594
Total stockholders' equity	282,180	280,510
Total liabilities and stockholders' equity	\$572,826	\$ 521,036

See Note 4 for further information concerning our purchases from related party vendors.

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

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CONSOLIDATED INCOME STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales	\$177,580	\$170,986	\$338,986	\$321,644
Cost of sales	133,829	127,530	254,201	240,541
Gross profit	43,751	43,456	84,785	81,103
Research and development expenses	4,946	5,151	10,444	10,337
Factory transition restructuring charges	449	84	5,699	1,517
Selling, general and administrative expenses	31,053	30,252	61,704	58,239
Operating income	7,303	7,969	6,938	11,010
Interest income (expense), net	(562)	(258)	(955)	(525)
Other income (expense), net	(642)	671	(59)	1,391
Income before provision for income taxes	6,099	8,382	5,924	11,876
Provision for income taxes	1,415	1,784	1,121	2,535
Net income	4,684	6,598	4,803	9,341
Net income attributable to noncontrolling interest	—	8	—	30
Net income attributable to Universal Electronics Inc.	\$4,684	\$6,590	\$4,803	\$9,311
Earnings per share attributable to Universal Electronics Inc.:				
Basic	\$0.33	\$0.46	\$0.33	\$0.65
Diluted	\$0.32	\$0.45	\$0.33	\$0.63
Shares used in computing earnings per share:				
Basic	14,404	14,440	14,427	14,406
Diluted	14,683	14,735	14,700	14,686

See Note 4 for further information concerning our purchases from related party vendors.

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

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CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

(In thousands)

(Unaudited)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Net income	\$4,684	\$6,598	\$4,803	\$9,341
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	608	(2,686 )	1,991	(1,318 )
Total comprehensive income (loss)	5,292	3,912	6,794	8,023
Comprehensive income (loss) attributable to noncontrolling interest	—	8	—	30
Comprehensive income (loss) attributable to Universal Electronics Inc.	\$5,292	\$3,904	\$6,794	\$7,993

See Note 4 for further information concerning our purchases from related party vendors.

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

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

	Six Months Ended June 30,	
	2017	2016
Cash provided by (used for) operating activities:		
Net income	\$4,803	\$9,341
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	15,954	12,032
Provision for doubtful accounts	81	116
Provision for inventory write-downs	1,419	1,705
Deferred income taxes	(1,035 )	165
Tax benefit from exercise of stock options and vested restricted stock	—	992
Excess tax benefit from stock-based compensation	—	(1,047 )
Shares issued for employee benefit plan	591	551
Employee and director stock-based compensation	5,555	4,970
Performance-based common stock warrants	1,263	2,058
Changes in operating assets and liabilities:		
Restricted cash	4,623	—
Accounts receivable	(20,427 )	(9,599 )
Inventories	(11,249 )	982
Prepaid expenses and other assets	(121 )	(243 )
Accounts payable and accrued expenses	(15 )	4,488
Accrued income taxes	(1,691 )	(3,260 )
Net cash provided by (used for) operating activities	(249 )	23,251
Cash used for investing activities:		
Acquisition of property, plant, and equipment	(17,519 )	(17,989 )
Acquisition of net assets of Residential Control Systems, Inc.	(8,854 )	—
Acquisition of intangible assets	(765 )	(993 )
Deconsolidation of Encore Controls LLC	—	48
Net cash used for investing activities	(27,138 )	(18,934 )
Cash provided by (used for) financing activities:		
Borrowings under line of credit	85,000	57,987
Repayments on line of credit	(42,987 )	(65,000 )
Proceeds from stock options exercised	842	2,536
Treasury stock purchased	(14,885 )	(1,944 )
Excess tax benefit from stock-based compensation	—	1,047
Net cash provided by (used for) financing activities	27,970	(5,374 )
Effect of exchange rate changes on cash	(1,499 )	(2,464 )
Net increase (decrease) in cash and cash equivalents	(916 )	(3,521 )
Cash and cash equivalents at beginning of year	50,611	52,966
Cash and cash equivalents at end of period	\$49,695	\$49,445
Supplemental cash flow information:		
Income taxes paid	\$4,142	\$4,647
Interest paid	\$981	\$609
See Note 4 for further information concerning our purchases from related party vendors.		



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

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UNIVERSAL ELECTRONICS INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Unaudited)

Note 1 — Basis of Presentation and Significant Accounting Policies

In the opinion of management, the accompanying consolidated financial statements of Universal Electronics Inc. and its subsidiaries contain all the adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented. All such adjustments are of a normal recurring nature. Information and footnote disclosures normally included in financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. As used herein, the terms "Company," "we," "us," and "our" refer to Universal Electronics Inc. and its subsidiaries, unless the context indicates to the contrary.

Our results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative Disclosures About Market Risk," and the "Financial Statements and Supplementary Data" included in Items 1A, 7, 7A, and 8, respectively, of our Annual Report on Form 10-K for the year ended December 31, 2016.

Estimates, Judgments and Assumptions

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates, judgments 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, business combinations, income taxes, stock-based compensation expense and performance-based common stock warrants. Actual results may differ from these estimates and assumptions, and they may be adjusted as more information becomes available. Any adjustment may be material.

See Note 2 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 for a summary of our significant accounting policies.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. On July 9, 2015, the FASB postponed the effective date of the new revenue standard by one year; however, early adoption is permitted as of the original effective date. We do not plan to early adopt ASU 2014-09. We are currently reviewing contract terms and assessing the impact of adopting this standard on our consolidated financial statements. While we are still in the process of conducting this analysis, the impact of this new guidance is expected to accelerate revenue recognition for certain of our contractual arrangements, and the impact could be material. The types of contractual arrangements for which we expect revenue recognition to be accelerated upon the adoption of ASU 2014-09 are primarily those arrangements under which we manufacture and sell customized products that have no alternative use, as defined under ASU 2014-09 and related guidance and interpretations, as well as certain licensing arrangements. We expect to complete our assessment over the next three to six months, during which time we will also select a transition method.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory", which states that inventory should be measured at the lower of cost and net realizable value. Net realizable value is defined as estimated

selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for fiscal periods beginning after December 15, 2016 and must be applied prospectively. The adoption of ASU 2015-11 did not have a material impact on our consolidated financial position or results of operations.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes." This new guidance requires all deferred tax assets and liabilities, along with any related valuation allowance, be classified as non-current on the balance sheet. ASU 2015-17 is effective for fiscal periods beginning after December 15, 2016 and may be adopted either prospectively or

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UNIVERSAL ELECTRONICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

(Unaudited)

retrospectively. We prospectively adopted ASU 2015-17 effective January 1, 2017, and thus prior period balance sheets have not been adjusted. The adoption of ASU 2015-17 had no impact on our consolidated results of operations or cash flows.

In February 2016, the FASB issued ASU 2016-02, "Leases", which changes the accounting for leases and requires expanded disclosures about leasing activities. This new guidance will require lessees to recognize a right of use asset and a lease liability at the commencement date for all leases with terms greater than twelve months. Accounting by lessors is largely unchanged. ASU 2016-02 is effective for fiscal periods beginning after December 15, 2018 and must be adopted using a modified retrospective approach. Early adoption is permitted. We are currently evaluating the impact that ASU 2016-02 will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting", which amends Accounting Standards Codification ("ASC") 718, "Compensation - Stock Compensation". ASU 2016-09 requires excess tax benefits and tax deficiencies to be recorded as a discrete adjustment to income tax expense when stock awards vest or are settled, rather than in paid-in capital when they impact income taxes payable. This new guidance also requires cash flows related to excess tax benefits from stock-based compensation to be presented with other income tax cash flows in operating activities, rather than separately as a financing activity, in the statement of cash flows. Additionally, ASU 2016-09 impacts the calculation of diluted weighted-average shares under the treasury stock method as the assumed proceeds from an employee vesting in or exercising a stock-based award are no longer increased or decreased by the amount of excess tax benefits or deficiencies taken to paid-in capital. We elected to adopt the provisions of ASU 2016-09 prospectively effective January 1, 2017. We also made the accounting policy election, as allowed by ASU 2016-09, to account for forfeitures of stock-based awards as they occur, rather than estimating forfeitures. The cumulative effect of adopting ASU 2016-09 was an increase of \$1.5 million to deferred tax assets and an increase to retained earnings of \$1.5 million, as of January 1, 2017, as a result of recognizing previously unrecognized excess tax benefits from stock-based compensation. There was no cumulative effect impact related to the change in accounting policy to account for forfeitures of stock-based awards when they occur as a result of our minimal historical forfeitures experience.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments", which amends ASC 230, "Statement of Cash Flows". This new guidance addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for fiscal periods beginning after December 15, 2017 and must be adopted retrospectively. Early adoption is permitted as long as all amendments are adopted in the same period. We are currently evaluating the impact that ASU 2016-15 will have on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory", which changes the accounting for income tax consequences of intra-entity transfers of assets other than inventory. Current guidance prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. Under this new guidance, the income tax consequences of an intra-entity transfer of an asset other than inventory will be recognized when the transfer occurs. ASU 2016-16 is effective for fiscal periods beginning after December 15, 2017. Early adoption is permitted. The impact of the adoption of ASU 2016-16 could be material depending on the size of any intra-entity transfers we may implement in future periods.

In November 2016, the FASB issued ASU 2016-18, "Restricted Cash", which amends ASC 230, "Statement of Cash Flows". This new guidance addresses the classifications and presentation of changes in restricted cash in the statement of cash flows. ASU 2016-18 is effective for fiscal periods beginning after December 15, 2017 and must be adopted retrospectively. Early adoption is permitted. The adoption of ASU 2016-18 will modify our current disclosures by reclassifying certain amounts within the consolidated statement of cash flows, but is not expected to have a material effect on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment". This guidance simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to the reporting unit. ASU 2017-04 is effective for fiscal periods beginning after December 31, 2019. Early adoption is permitted. We do not expect the adoption of ASU 2017-04 to have a material impact on our consolidated financial statements.

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UNIVERSAL ELECTRONICS INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 JUNE 30, 2017  
 (Unaudited)

## Note 2 — Cash and Cash Equivalents and Restricted Cash

## Cash and Cash Equivalents

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

(In thousands)	June 30, December 31,	
	2017	2016
United States	\$6,370	\$ 3,277
People's Republic of China ("PRC")	17,225	22,142
Asia (excluding the PRC)	4,771	5,260
Europe	17,170	19,630
South America	4,159	302
Total cash and cash equivalents	\$49,695	\$ 50,611

## Restricted Cash

In connection with a court order issued in a now settled litigation matter, we previously placed \$4.6 million of cash into a collateralized surety bond. This bond had certain restrictions for liquidation and was therefore classified as restricted cash. On February 10, 2017, the \$4.6 million surety bond was returned to us upon final settlement of the related litigation matter.

In connection with the pending sale of our Guangzhou factory in the PRC (Note 10), the buyer made a cash deposit of RMB 32 million (\$4.7 million based on June 30, 2017 exchange rates) into an escrow account on September 29, 2016. Under the terms of the escrow account, these funds will not be paid to us until the close of the sale. Accordingly, this deposit is presented as long-term restricted cash within our consolidated balance sheet.

## Note 3 — Accounts Receivable, Net and Revenue Concentrations

Accounts receivable, net were as follows:

(In thousands)	June 30, December 31,	
	2017	2016
Trade receivables, gross	\$140,845	\$ 120,965
Allowance for doubtful accounts (950 )	(904 )	
Allowance for sales returns (480 )	(539 )	
Net trade receivables	139,415	119,522
Other	8,323	5,070
Accounts receivable, net	\$147,738	\$ 124,592

## Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts were as follows:

(In thousands)	Six Months Ended June 30,	
	2017	2016
Balance at beginning of period	\$904	\$822
Additions (reductions) to costs and expenses	81	116
(Write-offs)/Foreign exchange effects	(35 )	4
Balance at end of period	\$950	\$942

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 (Unaudited)

**Sales Returns**

The allowance for sales returns at June 30, 2017 and December 31, 2016 included reserves for items returned prior to period-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 \$0.2 million and \$0.4 million on June 30, 2017 and December 31, 2016, respectively. The value of these returned goods was included in our inventory balance at June 30, 2017 and December 31, 2016.

**Significant Customers**

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

	Three Months Ended June 30,				2016	
	2017				2016	
	\$ (thousands)	% of Net Sales	%	\$ (thousands)	% of Net Sales	%
Comcast Corporation	\$42,951	24.2	%	\$36,366	21.3	%
DIRECTV	17,826	10.0		20,035	11.7	

	Six Months Ended June 30,				2016	
	2017			\$ (thousands)	% of Net Sales	%
	\$ (thousands)	% of Net Sales	%	\$ (thousands)	% of Net Sales	%
Comcast Corporation	\$85,198	25.1	%	\$75,975	23.6	%
DIRECTV	34,458	10.2		36,854	11.5	

Trade receivables associated with these significant customers that totaled more than 10% of our accounts receivable, net were as follows:

	June 30, 2017				December 31, 2016	
	\$ (thousands)	% of Accounts Receivable, Net	%	\$ (thousands)	% of Accounts Receivable, Net	%
Comcast Corporation	\$30,491	20.6	%	\$23,716	19.0	%
DIRECTV	15,718	10.6		12,878	10.3	

**Note 4 — Inventories, Net and Significant Supplier**

Inventories, net were as follows:

(In thousands)	June 30,	December 31,
	2017	2016
Raw materials	\$40,035	\$ 33,059
Components	20,241	15,046
Work in process	5,227	5,860
Finished goods	82,121	80,119
Reserve for excess and obsolete inventory	(4,207 )	(4,205 )
Inventories, net	\$143,417	\$ 129,879

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UNIVERSAL ELECTRONICS INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 JUNE 30, 2017  
 (Unaudited)

## Reserve for Excess and Obsolete Inventory

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

(In thousands)	Six Months	
	Ended June 30,	
	2017	2016
Balance at beginning of period	\$4,205	\$3,045
Additions charged to costs and expenses <sup>(1)</sup>	1,218	1,486
Sell through <sup>(2)</sup>	(576 )	(537 )
(Write-offs)/Foreign exchange effects	(640 )	(445 )
Balance at end of period	\$4,207	\$3,549

(1) The additions charged to costs and expenses do not include inventory directly written-off that was scrapped during production totaling \$0.2 million and \$0.2 million for the six months ended June 30, 2017 and 2016, respectively. These amounts are production waste and are not included in management's reserve for excess and obsolete inventory.

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

## Significant Supplier

We purchase integrated circuits, components and finished goods from multiple sources. Purchases from the following supplier totaled more than 10% of our total inventory purchases:

	Three Months Ended June 30,		2017		2016	
	\$	% of Total	\$	% of Total	\$	% of Total
	(thousands)	Inventory Purchases	(thousands)	Inventory Purchases	(thousands)	Inventory Purchases
Texas Instruments	\$11,450	11.0 %	\$11,437	11.8 %		
	Six Months Ended June 30,		2017		2016	
	\$	% of Total	\$	% of Total	\$	% of Total
	(thousands)	Inventory Purchases	(thousands)	Inventory Purchases	(thousands)	Inventory Purchases
Texas Instruments	\$20,578	10.7 %	\$19,941	11.3 %		



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UNIVERSAL ELECTRONICS INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 JUNE 30, 2017  
 (Unaudited)

**Related Party Supplier**

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

		Three Months Ended June 30,			
		2017		2016	
		\$	% of Total	\$	% of Total
		(thousands)	Inventory	(thousands)	Inventory
			Purchases		Purchases

Related party supplier	\$1,638	1.6 %	\$1,977	2.0 %
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		Six Months Ended June 30,			
		2017		2016	
		\$	% of Total	\$	% of Total
		(thousands)	Inventory	(thousands)	Inventory
			Purchases		Purchases

Related party supplier	\$2,584	1.3 %	\$3,589	2.0 %
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Total accounts payable to this supplier were as follows:

		June 30, 2017		December 31, 2016	
		\$	% of	\$	% of
		(thousands)	Accounts	(thousands)	Accounts
			Payable		Payable

Related party supplier	\$1,838	1.7 %	\$1,690	1.7 %
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Our payment terms and pricing with this supplier are consistent with the terms offered by other suppliers in the ordinary course of business. The accounting policies that we apply to our transactions with our related party supplier are consistent with those applied in transactions with independent third parties. Corporate management routinely monitors purchases from our related party supplier to ensure these purchases remain consistent with our business objectives.

**Note 5 — Goodwill and Intangible Assets, Net****Goodwill**

Changes in the carrying amount of goodwill were as follows:

(In thousands)

Balance at December 31, 2016	\$43,052
Goodwill acquired during the period <sup>(1)</sup>	5,294
Foreign exchange effects	26
Balance at June 30, 2017	\$48,372

<sup>(1)</sup> During the second quarter of 2017, we recorded \$5.3 million of goodwill related to the Residential Control Systems, Inc. acquisition. Refer to Note 18 for further information about this acquisition.

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## Intangible Assets, Net

The components of intangible assets, net were as follows:

(In thousands)	June 30, 2017			December 31, 2016		
	Gross <sup>(1)</sup>	Accumulated		Gross <sup>(1)</sup>	Accumulated	
		Amortization <sup>(1)</sup>	Net		Amortization <sup>(1)</sup>	Net
Distribution rights	\$329	\$ (143)	) \$186	\$302	\$ (119)	) \$183
Patents	12,330	(4,932)	) 7,398	12,038	(4,775)	) 7,263
Trademarks and trade names <sup>(2)</sup>	2,787	(1,442)	) 1,345	2,400	(1,310)	) 1,090
Developed and core technology	12,563	(5,065)	) 7,498	12,585	(4,068)	) 8,517
Capitalized software development costs	142	(42)	) 100	142	(5)	) 137
Customer relationships <sup>(2)</sup>	32,751	(17,772)	) 14,979	27,703	(16,344)	) 11,359
Order backlog <sup>(2)</sup>	150	(37)	) 113	—	—	) —
Total intangible assets, net	\$61,052	\$ (29,433)	) \$31,619	\$55,170	\$ (26,621)	) \$28,549

(1) This table excludes the gross value of fully amortized intangible assets totaling \$5.7 million and \$10.2 million at June 30, 2017 and December 31, 2016, respectively.

(2) During the second quarter of 2017, we purchased a trade name valued at \$0.4 million, which is being amortized ratably over eight years; customer relationships valued at \$5.2 million, which are being amortized ratably over 10 years; and order backlog valued at \$0.2 million, which is being amortized ratably over one year. Refer to Note 18 for further information regarding the purchase of these intangible assets.

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

(In thousands)	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Cost of sales	\$55	\$21	\$74	\$42
Selling, general and administrative expenses	1,736	1,534	3,317	3,067
Total amortization expense	\$1,791	\$1,555	\$3,391	\$3,109

Estimated future annual amortization expense related to our intangible assets at June 30, 2017, is as follows:

(In thousands)	
2017 (remaining 6 months)	\$3,582
2018	7,152
2019	7,067
2020	5,980
2021	2,575
Thereafter	5,263
Total	\$31,619

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Note 6 — Line of Credit

Our Amended and Restated Credit Agreement ("Amended Credit Agreement") with U.S. Bank National Association ("U.S. Bank") provides for a \$125.0 million revolving line of credit ("Credit Line") that expires on November 1, 2019 and 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. There were no outstanding letters of credit at June 30, 2017.

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 that 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. The interest rate in effect at June 30, 2017 was 2.34%. 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 June 30, 2017, we were in compliance with the covenants and conditions of the Amended Credit Agreement.

At June 30, 2017, we had \$92.0 million outstanding under the Credit Line. Our total interest expense on borrowings was \$0.6 million and \$0.3 million during the three months ended June 30, 2017 and 2016, respectively. Our total interest expense on borrowings was \$1.1 million and \$0.6 million during the six months ended June 30, 2017 and 2016, respectively.

Note 7 — Income Taxes

We utilize our estimated annual effective tax rate to determine our provision for income taxes for interim periods. The income tax provision is computed by taking the estimated annual effective tax rate and multiplying it by the year-to-date pre-tax book income.

We recorded income tax expense of \$1.4 million and \$1.8 million for the three months ended June 30, 2017 and 2016, respectively. Our effective tax rate was 23.2% and 21.3% during the three months ended June 30, 2017 and 2016, respectively. The increase in the effective tax rate was primarily due to the non-deductibility of certain transactions in China as a result of the pending sale of our Guangzhou factory (Note 10).

We recorded income tax expense of \$1.1 million and \$2.5 million for the six months ended June 30, 2017 and 2016, respectively. Our effective tax rate was 18.9% and 21.3% during the six months ended June 30, 2017 and 2016, respectively. The decrease in our effective tax rate was primarily due to the recognition of \$0.4 million of excess tax benefits related to stock-based compensation during the six months ended June 30, 2017 as a result of implementing ASU 2016-09.

At June 30, 2017, we had gross unrecognized tax benefits of \$3.8 million, including interest and penalties, of which \$3.5 million would affect the annual effective tax rate if these tax benefits are realized. Further, we are unaware of any positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly change within the next twelve months. However, based on federal, state and foreign statute expirations in various jurisdictions, we anticipate a decrease in unrecognized tax benefits of approximately \$0.1 million within the next twelve months. We have classified uncertain tax positions as non-current income tax liabilities unless expected to be paid within one year.

We have elected to classify interest and penalties as a component of tax expense. Accrued interest and penalties of \$0.3 million and \$0.3 million at June 30, 2017 and December 31, 2016, respectively, are included in our unrecognized tax benefits.

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## Note 8 — Accrued Compensation

The components of accrued compensation were as follows:

(In thousands)	June 30, December 31,	
	2017	2016
Accrued social insurance <sup>(1)</sup>	\$17,188	\$ 19,974
Accrued salary/wages	8,656	7,903
Accrued vacation/holiday	2,778	2,411
Accrued bonus <sup>(2)</sup>	1,782	2,421
Accrued commission	682	933
Accrued medical insurance claims	286	122
Other accrued compensation	2,148	1,816
Total accrued compensation	\$33,520	\$ 35,580

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 June 30, 2017 and December 31, 2016.

Accrued bonus includes an accrual for an extra month of salary ("13<sup>th</sup> month salary") to be paid to employees in certain geographies where it is the customary business practice. This 13<sup>th</sup> month salary is paid to these employees if they remain employed with us through December 31st. The total accrued for the 13<sup>th</sup> month salary was \$0.6 million and \$0.7 million at June 30, 2017 and December 31, 2016, respectively.

## Note 9 — Other Accrued Expenses

The components of other accrued expenses were as follows:

(In thousands)	June 30, December 31,	
	2017	2016
Advertising and marketing	\$280	\$ 213
Deferred revenue	1,444	1,431
Duties	1,047	1,127
Freight and handling fees	1,935	1,919
Product development	502	454
Product warranty claim costs	298	134
Professional fees	1,320	1,313
Property, plant, and equipment	738	1,017
Sales taxes and VAT	2,914	2,715
Short-term contingent consideration	2,500	—
Third-party commissions	667	853
Tooling <sup>(1)</sup>	1,605	1,520
Unrealized loss on foreign currency exchange contracts	667	1,623
URC court order and settlement agreement (Note 2)	—	6,622
Utilities	409	331
Other	3,968	3,138
Total other accrued expenses	\$20,294	\$ 24,410

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

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## Note 10 — Commitments and Contingencies

## Product Warranties

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

(In thousands)	Six Months Ended June 30,	
	2017	2016
Balance at beginning of period	\$ 134	\$ 35
Accruals for warranties issued during the period	167	—
Settlements (in cash or in kind) during the period	(3 )	—
Balance at end of period	\$ 298	\$ 35

## Restructuring Activities and Sale of Guangzhou Factory

In the first quarter of 2016, we implemented a plan to reduce the impact of rising labor rates in China by transitioning manufacturing activities from our southern-most China factory, located in the city of Guangzhou in the Guangdong province, to our other three China factories where labor rates are rising at a slower rate. As a result, we incurred severance costs of \$5.7 million and \$1.5 million during the six months ended June 30, 2017 and 2016, respectively, which are included within operating expenses. We expect to incur additional severance costs of approximately \$1.5 million as we continue to execute this transition over the next three to six months. Because severance costs relate to involuntary terminations, we record the related liability at the communication date. At June 30, 2017, we had \$0.2 million of unpaid severance costs included within accrued compensation.

On September 26, 2016, we entered into an agreement to sell our Guangzhou manufacturing facility for RMB 320 million (approximately \$47.2 million based on June 30, 2017 exchange rates). Under the terms of this agreement, we have up to 24 months to cease all operations within the facility. The closing of the sale will be subject to customary due diligence and local regulatory approval and per the terms of the agreement could take up to approximately 28 months from the execution of the agreement. In accordance with the terms of the agreement, the buyer deposited 10% of the purchase price into an escrow account at agreement inception, which we have presented as long-term restricted cash in our consolidated balance sheet (also refer to Note 2). The remaining balance of the purchase price is to be placed into the escrow account prior to the closing of the sale and will be released to us upon closing.

## Litigation

On or about June 10, 2015, FM Marketing GmbH ("FMH") and Ruwido Austria GmbH ("Ruwido"), filed a Summons in Summary Proceedings in Belgium court against one of our subsidiaries, Universal Electronics BV ("UEBV") and one of its customers, Telenet N.V. ("Telenet"), claiming that one of the products UEBV supplies Telenet violates two design patents and one utility patent owned by FMH and/or Ruwido. By this summons, FMH and Ruwido sought to enjoin Telenet and UEBV from continued distribution and use of the products at issue. After the September 29, 2015 hearing, the court issued its ruling in our and Telenet's favor, rejecting FMH and Ruwido's request entirely. On October 22, 2015, Ruwido filed its notice of appeal in this ruling. The parties have fully briefed and argued before the appellate court and we are awaiting the appellate court's ruling. In addition, on or about February 9, 2016, Ruwido filed a writ of summons for proceeding on the merits with respect to asserted patents. UEBV and Telenet have replied, denying all of Ruwido's allegations and in June 2017, a hearing was held before the trial court. We are awaiting the ruling from the trial court. Finally, in September 2015, UEBV filed an Opposition with the European Patent Office seeking to invalidate the one utility patent asserted against UEBV and Telenet by Ruwido. The hearing on this opposition was held in July 2017. During this hearing the panel requested additional information. We are in the process of assembling this additional information and scheduling a date for rehearing.

On January 26, 2017, OpenTV, Inc., Nagra USA, Inc., Nagravision SA, and Kudelski SA (collectively, the “Kudelski Group”) filed a request with the U.S. International Trade Commission (“ITC”) to institute an investigation pursuant to Section 337 of the Tariff Act of 1930, as amended, concerning certain remote control devices we supply Comcast Corporation (“Comcast”) to which the ITC agreed to accept this request. On July 21, 2017, the Kudelski Group filed a motion to terminate the investigation as to all parties, including us. We expect this motion to be accepted soon by the ITC.



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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.

## Note 11 — Treasury Stock

From time to time, our Board of Directors authorizes management to repurchase shares of our issued and outstanding common stock on the open market. 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 June 30, 2017, we had 148,853 shares available for repurchase on the open market under the Board's authorizations. On July 26, 2017, our Board increased these repurchase authorizations by 51,147 shares bringing the total authorization as of the approval date to 200,000 shares. Shares may also be tendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock.

Repurchased shares of our common stock were as follows:

	Six Months Ended June 30,	
(In thousands)	2017	2016
Shares repurchased	239	36
Cost of shares repurchased	\$ 14,885	\$ 1,944

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.

## Note 12 — 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.

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## Foreign Operations

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

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
(In thousands)	2017	2016	2017	2016
United States	\$85,569	\$90,872	\$167,497	\$174,810
Asia (excluding PRC)	26,916	20,618	51,566	42,191
People's Republic of China	21,835	23,153	37,578	40,079
Europe	19,740	18,544	37,164	34,327
Latin America	15,381	11,686	31,026	19,241
Other	8,139	6,113	14,155	10,996
Total net sales	\$177,580	\$170,986	\$338,986	\$321,644

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)	June 30,		December 31,	
	2017	2016	2017	2016
United States	\$13,004	\$11,948		
People's Republic of China	100,300	94,113		
All other countries	3,969	4,186		
Total long-lived tangible assets	\$117,273	\$110,247		

## Note 13 — 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:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
(In thousands)	2017	2016	2017	2016
Cost of sales	\$19	\$15	\$34	\$29
Research and development expenses	144	137	263	273
Selling, general and administrative expenses:				
Employees	1,975	1,731	3,719	3,576
Outside directors	794	594	1,539	1,092
Total employee and director stock-based compensation expense	\$2,932	\$2,477	\$5,555	\$4,970
Income tax benefit	\$889	\$736	1,704	1,469

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## Stock Options

Stock option activity was as follows:

	Number of Options (in 000's)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in 000's)
Outstanding at December 31, 2016	652	\$ 39.27		
Granted	92	62.70		
Exercised	(35 )	24.41		\$ 1,555
Forfeited/canceled/expired	(18 )	28.08		
Outstanding at June 30, 2017 <sup>(1)</sup>	691	\$ 43.41	4.88	\$ 16,207
Vested and expected to vest at June 30, 2017 <sup>(1)</sup>	691	\$ 43.41	4.88	\$ 16,204
Exercisable at June 30, 2017 <sup>(1)</sup>	424	\$ 35.97	4.25	\$ 13,092

The aggregate intrinsic value represents the total pre-tax value (the difference between our closing stock price on <sup>(1)</sup> the last trading day of the second quarter of 2017 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 June 30, 2017.

This amount will change based on the fair market value of our stock.

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:

	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Weighted average fair value of grants	\$—	\$ —	\$19.61	\$17.96
Risk-free interest rate	—%	—%	1.75 %	1.36 %
Expected volatility	—%	—%	34.25 %	41.38 %
Expected life in years	0.00	0.00	4.52	4.55

As of June 30, 2017, we expect to recognize \$4.3 million of total unrecognized pre-tax stock-based compensation expense related to non-vested stock options over a remaining weighted-average life of 1.9 years.

## Restricted Stock

Non-vested restricted stock award activity was as follows:

	Shares (in 000's)	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2016	153	\$ 57.43
Granted	99	63.40
Vested	(43 )	59.64
Forfeited	(4 )	60.64
Non-vested at June 30, 2017	205	\$ 59.78

As of June 30, 2017, we expect to recognize \$9.6 million of total unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards over a weighted-average life of 2.0 years.

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## Note 14 — Performance-Based Common Stock Warrants

On March 9, 2016, we issued common stock purchase warrants to Comcast to purchase up to 725,000 shares of our common stock at a price of \$54.55 per share. The right to exercise the warrants is subject to vesting over three successive two-year periods (with the first two-year period commencing on January 1, 2016) based on the level of purchases of goods and services from us by Comcast and its affiliates, as defined in the warrants. The table below presents the purchase levels and number of warrants that will vest in each period based upon achieving these purchase levels.

Aggregate Level of Purchases by Comcast and Affiliates	Incremental Warrants That Will Vest		
	January 1, 2016 - December 31, 2017	January 1, 2018 - December 31, 2019	January 1, 2020 - December 31, 2021
\$260 million	100,000	100,000	75,000
\$300 million	75,000	75,000	75,000
\$340 million	75,000	75,000	75,000
Maximum Potential Warrants Earned by Comcast	250,000	250,000	225,000

If total aggregate purchases by Comcast and its affiliates are below \$260 million in any of the two-year periods above, no warrants will vest related to that two-year period. If total aggregate purchases of goods and services by Comcast and its affiliates exceed \$340 million during either the first or second two-year period, the amount of any such excess will count toward aggregate purchases in the following two-year period. To fully vest in the rights to purchase all of the underlying shares, Comcast and its affiliates must purchase an aggregate of \$1.02 billion in goods and services from us during the six-year vesting period.

Any and all warrants that vest will expire on January 1, 2023. The warrants provide for certain adjustments that may be made to the exercise price and the number of shares issuable upon exercise due to customary anti-dilution provisions. Additionally, in connection with the warrants, we have also entered into a registration rights agreement with Comcast under which Comcast may from time to time request that we register the shares of common stock underlying vested warrants with the SEC.

Because the warrants contain performance criteria under which Comcast must achieve specified aggregate purchase levels for the warrants to vest, as detailed above, the measurement date for the warrants is the date on which the warrants vest. At June 30, 2017, none of the warrants had vested.

The fair value of the warrants is determined using the Black-Scholes option pricing model. The assumptions we utilized and the resulting fair value of the warrants were the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Fair value	\$28.89	\$35.88	\$28.89	\$35.88
Price of Universal Electronics Inc. common stock	\$67.21	\$71.16	\$67.21	\$71.16
Risk-free interest rate	1.95 %	1.22 %	1.95 %	1.22 %
Expected volatility	35.05 %	41.17 %	35.05 %	41.17 %
Expected life in years	5.50	6.50	5.50	6.50



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The impact to net sales recorded in connection with the warrants and the related income tax benefit were as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2017	2016	2017	2016
Reduction to net sales	\$331	\$1,193	\$1,263	\$2,059
Income tax benefit	123	438	471	756

At June 30, 2017, we estimated the number of warrants that will vest based on the combination of purchases already made and projected future purchases that will be made by Comcast and its affiliates. These estimates may increase or decrease based on actual future purchases. The aggregate unrecognized estimated fair value of unvested warrants at June 30, 2017 was \$17.0 million.

Note 15 — Other Income (Expense), Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2017	2016	2017	2016
Net gain (loss) on foreign currency exchange contracts <sup>(1)</sup>	\$(1,598)	\$(477)	\$(1,364)	\$(676)
Net gain (loss) on foreign currency exchange transactions	1,006	1,105	1,336	2,016
Other income (expense)	(50)	43	(31)	51
Other income (expense), net	\$(642)	\$671	\$(59)	\$1,391

<sup>(1)</sup> This represents the gains (losses) incurred on foreign currency hedging derivatives (see Note 17 for further details).

Note 16 — Earnings Per Share

Earnings per share was calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per-share amounts)	2017	2016	2017	2016
<b>BASIC</b>				
Net income attributable to Universal Electronics Inc.	\$4,684	\$6,590	\$4,803	\$9,311
Weighted-average common shares outstanding	14,404	14,440	14,427	14,406
Basic earnings per share attributable to Universal Electronics Inc.	\$0.33	\$0.46	\$0.33	\$0.65
<b>DILUTED</b>				
Net income attributable to Universal Electronics Inc.	\$4,684	\$6,590	\$4,803	\$9,311
Weighted-average common shares outstanding for basic	14,404	14,440	14,427	14,406
Dilutive effect of stock options and restricted stock	279	295	273	280
Weighted-average common shares outstanding on a diluted basis	14,683	14,735	14,700	14,686
Diluted earnings per share attributable to Universal Electronics Inc.	\$0.32	\$0.45	\$0.33	\$0.63





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December 31, 2016	USD/Brazilian Real	USD	\$ 2.0	3.4775	\$ (131 )	January 13, 2017
December 31, 2016	USD/Brazilian Real	USD	\$ 4.0	3.2316	\$ 39	January 13, 2017

- (1) Unrealized gains on foreign currency exchange contracts are recorded in prepaid expenses and other current assets.  
 Unrealized losses on foreign currency exchange contracts are recorded in other accrued expenses.

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## Note 18 — Business Combination

On April 6, 2017, we acquired substantially all of the net assets of Residential Control Systems, Inc. ("RCS"), a U.S.-based designer and manufacturer of energy management and control products for the residential, small commercial and hospitality markets. The initial purchase price of \$12.6 million was comprised of \$8.9 million in cash, which is subject to adjustment based on the final acquired working capital balances, and \$3.7 million of contingent consideration. Additionally, we incurred approximately \$0.1 million in acquisition costs, consisting primarily of accounting related expenses, which are included within selling, general and administrative expenses for the three and six months ended June 30, 2017. The acquisition of these assets will allow us to expand our product offering of home sensing, monitoring and control solutions to include smart thermostat, sensing and monitoring products currently sold and marketed by RCS.

Our consolidated income statement for the three and six months ended June 30, 2017 includes net sales of \$1.4 million and a net loss of \$0.4 million attributable to RCS for the period commencing on April 6, 2017.

## Contingent Consideration

The initial purchase price is subject to adjustment for differences between the initial estimated working capital balances and the final adjusted balances. In accordance with the terms of the RCS Asset Purchase Agreement ("APA"), any adjustment to the initial purchase price must be completed within 120 days of the acquisition date. We expect this calculation to be completed in the third quarter of 2017.

We are required to make additional earnout payments of up to \$10.0 million upon the achievement of certain operating income levels attributable to RCS over the period commencing on the acquisition date through June 30, 2022. The amount of contingent consideration is calculated at the end of each calendar year and is based upon the agreed upon percentage of operating income as defined in the APA. Operating income will be calculated using certain revenues, costs and expenses directly attributable to RCS as specified in the APA. At the acquisition date, the value of earnout contingent consideration was estimated using a valuation methodology based on projections of future operating income calculated in accordance with the APA. Such projections were then discounted using an average discount rate of 24.8% to reflect the risk in achieving the projected operating income levels as well as the time value of money. The fair value measurement of the earnout contingent consideration was based primarily on significant inputs not observable in an active market and thus represents a Level 3 measurement as defined under U.S. GAAP. The fair value of earnout consideration is presented as long-term contingent consideration in our consolidated balance sheet at June 30, 2017.

## Preliminary Purchase Price Allocation

Using the acquisition method of accounting, the acquisition date fair value of the consideration transferred was allocated to the net tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date. The excess of the purchase price over the estimated fair value of net assets acquired is recorded as goodwill. The goodwill is expected to be deductible for income tax purposes. Management's preliminary purchase price allocation as of June 30, 2017 was the following:

(in thousands)	Estimated Lives	Preliminary Fair Value
Accounts receivable		\$ 429
Inventories		1,460
Prepaid expenses and other current assets		6
Property, plant and equipment	1-4 years	14
Current liabilities		(399 )
Net tangible assets acquired		1,510
Trade name	8 years	400

Customer relationships	10 years	5,200
Order backlog	1 year	150
Goodwill		5,294
Total purchase price		12,554
Less: Contingent consideration		(3,700 )
Cash paid		\$ 8,854

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UNIVERSAL ELECTRONICS INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 JUNE 30, 2017  
 (Unaudited)

Management's determination of the fair value of intangible assets acquired are based primarily on significant inputs not observable in an active market and thus represent Level 3 fair value measurements as defined under U.S. GAAP. The fair value assigned to the RCS trade name intangible asset was determined utilizing a relief from royalty method. Under the relief from royalty method, the fair value of the intangible asset is estimated to be the present value of the royalties saved because the company owns the intangible asset. Revenue projections and estimated useful life were significant inputs into estimating the value of the RCS trade name.

The fair value assigned to RCS customer relationships and order backlog intangible assets were determined utilizing a multi-period excess earnings approach. Under the multi-period excess earnings approach, the fair value of the intangible asset is estimated to be the present value of future earnings attributable to the asset and utilizes revenue and cost projections, including an assumed contributory asset charge.

The trade name, customer relationships, and order backlog intangible assets are expected to be deductible for income tax purposes.

## Pro Forma Results (Unaudited)

The following unaudited pro forma financial information presents the combined results of our operations and the operations of RCS as if this transaction had occurred on January 1, 2016. This unaudited pro forma financial information is not intended to represent or be indicative of the consolidated results of operations that would have been achieved had the acquisition actually been completed as of January 1, 2016, and should not be taken as a projection of the future consolidated results of our operations.

	Three Months		Six Months Ended	
	Ended June 30, 2017		June 30, 2017	
(In thousands, except per-share amounts)	2017	2016	2017	2016
Net sales	\$177,580	\$172,308	\$339,548	\$326,514
Net income	4,767	6,381	4,541	9,367
Net income attributable to Universal Electronics Inc.	4,767	6,373	4,541	9,337
Basic earnings per share attributable to Universal Electronics Inc.	\$0.33	\$0.44	\$0.31	\$0.65
Diluted earnings per share attributable to Universal Electronics Inc.	\$0.32	\$0.43	\$0.31	\$0.64

For purposes of determining pro forma net income attributable to Universal Electronics Inc., adjustments were made to all periods presented in the table above. The pro forma net income and net income attributable to Universal Electronics Inc. assumes that amortization of acquired intangible assets began at January 1, 2016 rather than on April 6, 2017. The result is a net increase in amortization expense of \$0.1 million for the six months ended June 30, 2017 and a net increase in amortization expense of \$0.2 million and \$0.4 million for the three and six months ended June 30, 2016, respectively. Additionally, acquisition costs totaling \$0.1 million are excluded from pro forma net income attributable to Universal Electronics Inc. All adjustments have been made net of their related tax effects.

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ITEM 2. 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, software and intelligent wireless security, sensing and automation components dedicated to redefining the home entertainment and automation experience. Our customers operate primarily in the consumer electronics market and include subscription broadcasters, OEMs, international retailers, private label brands, pro-security dealers and companies in the computing industry. We also sell integrated circuits, on which our software and device control database is embedded, and license our device control database to OEMs that manufacture televisions, digital audio and video players, streamer boxes, cable converters, satellite receivers, set-top boxes, room air conditioning equipment, game consoles, and wireless mobile phones and tablets.

Since our beginning in 1986, we have compiled an extensive device control code database that covers approximately one million individual device functions and approximately 8,000 unique consumer electronic brands. QuickSet®, our proprietary software, can automatically detect, identify and enable the appropriate control commands for home entertainment, automation and appliances like air conditioners. Our library is regularly updated with new control functions captured directly from devices, remote controls and manufacturer specifications to ensure the accuracy and integrity of our database and control engine. Our universal remote control library contains device codes that are capable of controlling virtually all 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.

With the wider adoption of more advanced technologies, emerging radio frequency ("RF") technologies, such as RF4CE, Bluetooth, and Bluetooth Smart, have increasingly become a focus in our development efforts. Several new recently released platforms utilize RF to effectively implement popular features like voice search.

We have developed a comprehensive patent portfolio of more than 400 pending and issued patents related to remote controls and home automation.

We operate as one business segment. We have 24 international subsidiaries located in Argentina, Brazil, British Virgin Islands, Cayman Islands, France, Germany, Hong Kong (3), India, Italy, Japan, Korea, Mexico, the Netherlands, People's Republic of China (6), Singapore, Spain, and the United Kingdom.

To recap our results for the three months ended June 30, 2017:

• Net sales increased 3.9% to \$177.6 million for the three months ended June 30, 2017 from \$171.0 million for the three months ended June 30, 2016.

• Our gross margin percentage decreased from 25.4% for the three months ended June 30, 2016 to 24.6% for the three months ended June 30, 2017.

• Operating expenses, as a percent of net sales, decreased from 20.7% for the three months ended June 30, 2016 to 20.5% for the three months ended June 30, 2017.

• Our operating income decreased from \$8.0 million for the three months ended June 30, 2016 to \$7.3 million for the three months ended June 30, 2017, and our operating margin percentage decreased from 4.7% for the three months ended June 30, 2016 to 4.1% for the three months ended June 30, 2017.

• Our effective tax rate increased to 23.2% for the three months ended June 30, 2017, compared to 21.3% for the three months ended June 30, 2016.

Our strategic business objectives for 2017 include the following:

- continue to develop and market the advanced remote control products and technologies our customer base is adopting;
- continue to broaden our home control and automation product offerings;
- further penetrate international 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

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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 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, business combinations, income taxes, stock-based compensation expense and performance-based common stock warrants. 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. We do not believe that there have been any significant changes during the three months ended June 30, 2017 to the items that we disclosed as our critical accounting policies and estimates in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Annual Report on Form 10-K for our fiscal year ended December 31, 2016.

**Recent Accounting Pronouncements**

See Note 1 contained in the "Notes to Consolidated Financial Statements" for a discussion of recent accounting pronouncements.

**Results of Operations**

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

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	75.4	74.6	75.0	74.8
Gross profit	24.6	25.4	25.0	25.2
Research and development expenses	2.8	3.0	3.1	3.2
Factory transition restructuring charges	0.2	0.0	1.7	0.5
Selling, general and administrative expenses	17.5	17.7	18.2	18.1
Operating income	4.1	4.7	2.0	3.4
Interest income (expense), net	(0.3 )	(0.2 )	(0.3 )	(0.1 )
Other income (expense), net	(0.4 )	0.4	(0.0 )	0.4
Income before provision for income taxes	3.4	4.9	1.7	3.7
Provision for income taxes	0.8	1.0	0.3	0.8
Net income	2.6	3.9	1.4	2.9
Net income attributable to noncontrolling interest	—	0.0	—	0.0
Net income attributable to Universal Electronics Inc.	2.6 %	3.9 %	1.4 %	2.9 %

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## Three Months Ended June 30, 2017 versus Three Months Ended June 30, 2016

Net sales. Net sales for the three months ended June 30, 2017 were \$177.6 million, an increase of 3.9% compared to \$171.0 million for the three months ended June 30, 2016. Net sales by our Business and Consumer lines were as follows:

	Three Months Ended June 30,			
	2017	2016		
	\$ (millions)	% of total	\$ (millions)	% of total
Business	\$164.5	92.6 %	\$158.5	92.7 %
Consumer	13.1	7.4	12.5	7.3
Total net sales	\$177.6	100.0 %	\$171.0	100.0 %

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were 92.6% of net sales for the three months ended June 30, 2017 compared to 92.7% for the three months ended June 30, 2016. Net sales in our Business lines for the three months ended June 30, 2017 increased by 3.8% to \$164.5 million from \$158.5 million driven primarily by the rollout of higher end platforms in North America and Europe, increased sales of home security products and increased market share in Latin America. These increases were partially offset by decreased sales to North American satellite broadcasting customers as certain customers are in the process of depleting their current stock of inventory in preparation for the launch of their new advanced platforms.

Net sales in our Consumer lines (One For All<sup>®</sup> retail and private label) were 7.4% of net sales for the three months ended June 30, 2017 compared to 7.3% for the three months ended June 30, 2016. Net sales in our Consumer lines for the three months ended June 30, 2017 increased by 4.8% to \$13.1 million from \$12.5 million in the three months ended June 30, 2016 driven primarily by growth in the U.S. market.

Gross profit. Gross profit for the three months ended June 30, 2017 was \$43.8 million compared to \$43.5 million for the three months ended June 30, 2016. Gross profit as a percent of sales decreased to 24.6% for the three months ended June 30, 2017 compared to 25.4% for the three months ended June 30, 2016. The gross margin percentage was unfavorably impacted by manufacturing inefficiencies experienced due to factory transition activities in China, price reductions granted to certain large volume customers, and lower-margin projects undertaken in Latin America. These were partially offset by the weakening of the Chinese Yuan Renminbi relative to the U.S. Dollar and improved margins in our Consumer lines.

Research and development ("R&D") expenses. R&D expenses decreased 4.0% to \$4.9 million for the three months ended June 30, 2017 from \$5.2 million for the three months ended June 30, 2016.

Factory transition restructuring charges. In the first quarter of 2016, we implemented a plan to reduce the impact of rising labor rates in China by transitioning manufacturing activities from our southern-most China factory, located in the city of Guangzhou in the Guangdong province, to our other three China factories where labor rates are rising at a slower rate. As a result, we incurred severance costs of \$0.4 million and \$0.1 million for the three months ended June 30, 2017 and 2016, respectively. We expect to incur additional severance costs of approximately \$1.5 million as we continue to execute this transition over the next three to six months.

Selling, general and administrative ("SG&A") expenses. SG&A expenses increased 2.6% to \$31.1 million for the three months ended June 30, 2017 from \$30.3 million for the three months ended June 30, 2016. The increase was primarily due to increased payroll and benefits costs attributable to annual merit increases and additional headcount to support product development efforts; incremental expense recorded to reflect an increase in the value of contingent consideration to be paid in connection with our acquisition of the net assets of Ecolink Intelligent Technology, Inc. ("Ecolink"); additional outside product development expense; additional expense related to the acquisition of the net assets of Residential Control Systems, Inc. ("RCS"); and additional expense to support our implementation of a new ERP system. Partially offsetting these increases was a decrease in legal expense as a result of higher legal fees, including the recording of a \$2.0 million legal settlement, in the prior year period related to a patent litigation lawsuit. In addition, incentive compensation expense decreased from the prior year quarter.

Interest income (expense), net. Net interest expense was \$0.6 million for the three months ended June 30, 2017 compared to net interest expense of \$0.3 million for the three months ended June 30, 2016 as a result of an increased level of borrowings on our line of credit.



Other income (expense), net. Net other expense was \$0.6 million for the three months ended June 30, 2017 compared to net other income of \$0.7 million for the three months ended June 30, 2016. This change was driven primarily by foreign currency losses associated with fluctuations in the Chinese Yuan Renminbi and Euro exchange rates versus the U.S. Dollar.

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Income tax provision. Income tax expense was \$1.4 million for the three months ended June 30, 2017 compared to \$1.8 million for the three months ended June 30, 2016. Our effective tax rate was 23.2% for the three months ended June 30, 2017 compared to 21.3% for the three months ended June 30, 2016. The increase in our effective tax rate was primarily due to the nondeductibility of certain transactions in China as a result of the pending sale of our Guangzhou factory.

Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016

Net sales. Net sales for the six months ended June 30, 2017 were \$339.0 million, an increase of 5.4% compared to \$321.6 million for the six months ended June 30, 2016. Net sales by our Business and Consumer lines were as follows:

	Six Months Ended June 30, 2017			2016		
	\$ (millions)		% of total	\$ (millions)		% of total
Business	\$314.9	92.9	%	\$299.1	93.0	%
Consumer	24.1	7.1	%	22.5	7.0	%
Total net sales	\$339.0	100.0	%	\$321.6	100.0	%

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were 92.9% of net sales for the six months ended June 30, 2017 compared to 93.0% for the six months ended June 30, 2016. Net sales in our Business lines for the six months ended June 30, 2017 increased by 5.3% to \$314.9 million from \$299.1 million driven primarily by the rollout of higher end platforms in North America and Europe, increased sales of home security products and increased market share in Latin America. These increases were partially offset by decreased sales to North American satellite customers as certain customers are in the process of depleting their current stock of inventory in preparation for the launch of their new advanced platforms.

Net sales in our Consumer lines (One For All<sup>®</sup> retail and private label) were 7.1% of net sales for the six months ended June 30, 2017 compared to 7.0% for the six months ended June 30, 2016. Net sales in our Consumer lines for the six months ended June 30, 2017 increased by 7.1% to \$24.1 million from \$22.5 million in the six months ended June 30, 2016 driven primarily by growth in the U.S. market.

Gross profit. Gross profit for the six months ended June 30, 2017 was \$84.8 million compared to \$81.1 million for the six months ended June 30, 2016. Gross profit as a percent of sales decreased slightly to 25.0% for the six months ended June 30, 2017 compared to 25.2% for the six months ended June 30, 2016. The gross margin percentage was unfavorably impacted by manufacturing inefficiencies experienced due to factory transition activities in China, price reductions granted to certain large volume customers, and lower-margin projects undertaken in Latin America. These were partially offset by the weakening of the Chinese Yuan Renminbi relative to the U.S. Dollar and improved margins in our Consumer lines.

Research and development expenses. R&D expenses increased 1.0% to \$10.4 million for the six months ended June 30, 2017 from \$10.3 million for the six months ended June 30, 2016.

Factory transition restructuring charges. In the first quarter of 2016, we implemented a plan to reduce the impact of rising labor costs in China by transitioning manufacturing activities from our southern-most China factory, located in the city of Guangzhou in the Guangdong province, to our other three China factories where labor rates are rising at a slower rate. As a result, we incurred severance costs of \$5.7 million and \$1.5 million for the six months ended June 30, 2017 and 2016, respectively. We expect to incur additional severance costs of approximately \$1.5 million as we continue to execute this transition over the next three to six months.

Selling, general and administrative expenses. SG&A expenses increased 5.9% to \$61.7 million for the six months ended June 30, 2017 from \$58.2 million for the six months ended June 30, 2016. The increase was primarily due to incremental expense recorded to reflect an increase in the value of contingent consideration to be paid in connection with our acquisition of the net assets of Ecolink; additional expense to support our implementation of a new ERP system; additional outside product development expense; increased payroll and benefits costs attributable to annual merit increases and additional headcount to support product development efforts; and additional expense related to the acquisition of the net assets of RCS. Partially offsetting these increases was a decrease in legal expense as a result of higher legal fees, including the recording of a \$2.0 million legal settlement, in the prior year period related to a patent

litigation lawsuit. In addition, incentive compensation expense decreased from the prior year period. Interest income (expense), net. Net interest expense was \$1.0 million for the six months ended June 30, 2017 compared to net interest expense of \$0.5 million for the six months ended June 30, 2016 as a result of an increased level of borrowings on our line of credit.

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Other income (expense), net. Net other expense was \$0.1 million for the six months ended June 30, 2017 compared to net other income of \$1.4 million for the six months ended June 30, 2016. This change was driven primarily by a decrease in foreign currency gains associated with fluctuations in the Chinese Yuan Renminbi exchange rate versus the U.S. Dollar.

Income tax provision. Income tax expense was \$1.1 million for the six months ended June 30, 2017 compared to \$2.5 million for the six months ended June 30, 2016. Our effective tax rate was 18.9% for the six months ended June 30, 2017 compared to 21.3% for the six months ended June 30, 2016. The decrease in our effective tax rate was primarily due to the recognition of \$0.4 million of excess tax benefits related to stock-based compensation during the six months ended June 30, 2017 as a result of implementing ASU 2016-09, which became effective January 1, 2017.

## Liquidity and Capital Resources

## Sources and Uses of Cash

(In thousands)	Six Months Ended June 30, 2017	Increase (Decrease)	Six Months Ended June 30, 2016
Cash provided by (used for) operating activities	\$(249 )	\$(23,500 )	\$23,251
Cash used for investing activities	(27,138)	(8,204 )	(18,934 )
Cash provided by (used for) financing activities	27,970	33,344	(5,374 )
Effect of exchange rate changes on cash	(1,499 )	965	(2,464 )
Net increase (decrease) in cash and cash equivalents	\$(916 )	\$2,605	\$(3,521 )

	June 30, 2017	Increase (Decrease)	December 31, 2016
Cash and cash equivalents	\$49,695	\$ (916 )	\$ 50,611
Working capital	87,889	(20,402 )	108,291

Net cash used for operating activities was \$0.2 million during the six months ended June 30, 2017 compared to \$23.3 million of net cash provided by operating activities during the six months ended June 30, 2016. The decrease in net cash provided by operating activities was primarily due to working capital needs associated with inventories and accounts receivable. Cash outflows associated with inventories increased during the six months ended June 30, 2017 as a result of increased sales as well as some buildup of inventory related to the anticipated rollout of higher end platforms to certain customers. Our inventory turns decreased from 4.3 turns at June 30, 2016 to 3.9 turns at June 30, 2017. With respect to accounts receivable, cash outflows have increased primarily as a result of sales growth and collection timing. Days sales outstanding have increased from 70 days at June 30, 2016 to 75 days at June 30, 2017. Net cash used for investing activities during the six months ended June 30, 2017 was \$27.1 million compared to \$18.9 million during the six months ended June 30, 2016. The increase in cash used for investing activities was driven primarily by our acquisition of the net assets of RCS for \$8.9 million in April 2017. We anticipate that property, plant and equipment purchases in 2017 will total between \$24 million and \$27 million.

Net cash provided by financing activities was \$28.0 million during the six months ended June 30, 2017 compared to \$5.4 million of net cash used for financing activities during the six months ended June 30, 2016. The increase in cash provided by financing activities was driven primarily by net borrowings on our line of credit of \$42.0 million during the six months ended June 30, 2017, compared to net payments of \$7.0 million on our line of credit during the six months ended June 30, 2016. This was partially offset by an increase of \$12.9 million in treasury stock purchases. During the six months ended June 30, 2017, we repurchased 239,470 shares of our common stock at a cost of \$14.9 million compared to our repurchase of 36,329 shares at a cost of \$1.9 million during the six months ended June 30, 2016. We hold these 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. From time to time, our Board of Directors authorizes management to repurchase shares of our issued and outstanding common stock on the open market. 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 June 30, 2017, we had 148,853 shares available for repurchase on the open market under the Board's authorizations. On July 26, 2017, our Board increased these repurchase authorizations by 51,147 shares bringing the total authorization as of the approval date to 200,000 shares.

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## 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
Operating lease obligations	\$13,402	\$4,591	\$5,246	\$3,047	\$518
Capital lease obligations	3	3	—	—	—
Purchase obligations <sup>(1)</sup>	8,235	8,235	—	—	—
Contingent consideration <sup>(2)</sup>	15,100	2,500	8,222	4,194	184
Total contractual obligations	\$36,740	\$15,329	\$13,468	\$7,241	\$702

<sup>(1)</sup> Purchase obligations primarily consist of contractual payments to purchase property, plant and equipment.

<sup>(2)</sup> Contingent consideration consists of contingent payments related to our purchases of the net assets of Ecolink and RCS.

## 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. More recently, we have utilized our revolving line of credit to fund an increased level of share repurchases and our acquisitions of the net assets of Ecolink and RCS. We anticipate that we will continue to utilize both cash flows from operations and our revolving line of credit to support ongoing business operations, capital expenditures and future 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 and when inventory levels increase in anticipation of factory closures in observance of Chinese New Year. We believe our current cash balances, anticipated cash flow to be generated from operations and available borrowing resources will be sufficient to cover expected cash outlays during the next twelve months; however, because our cash is located in various jurisdictions throughout the world, we may at times need to increase borrowing from our revolving line of credit or take on additional debt until we are able to transfer cash among our various entities.

Our liquidity is subject to various risks including the risks discussed under "Item 3. Quantitative and Qualitative Disclosures about Market Risk."

(In thousands)	June 30, December 31,	
	2017	2016
Cash and cash equivalents	\$49,695	\$50,611
Available borrowing resources	33,000	35,000

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 June 30, 2017, we had \$6.4 million, \$17.2 million, \$4.8 million, \$17.2 million and \$4.1 million of cash and cash equivalents in the United States, the People's Republic of China ("PRC"), Asia (excluding the PRC), Europe, and South America, respectively. On December 31, 2016, we had \$3.3 million, \$22.1 million, \$5.3 million, \$19.6 million, and \$0.3 million of cash and cash equivalents in the United States, the PRC, Asia (excluding the PRC), 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.

Our Amended and Restated Credit Agreement ("Amended Credit Agreement") with U.S. Bank National Association ("U.S. Bank") provides for a \$125.0 million revolving line of credit ("Credit Line") that expires on November 1, 2019 and 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. There were no outstanding letters of credit at June 30, 2017.

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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 that 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. The interest rate in effect at June 30, 2017 was 2.34%. 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 June 30, 2017, we were in compliance with the covenants and conditions of the Amended Credit Agreement.

At June 30, 2017, we had an outstanding balance of \$92.0 million on our Credit Line and \$33.0 million of availability. Off-Balance Sheet Arrangements

We do not participate in any material off-balance sheet arrangements.

## Factors That May Affect Financial Condition and Future Results

### Forward-Looking Statements

We caution that the following important factors, among others (including but not limited to factors discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as those discussed in our 2016 Annual Report on Form 10-K, or in our other reports filed from time to time with the Securities and Exchange Commission), may affect our actual results and may contribute to or cause our actual consolidated results to differ materially from those expressed in any of our forward-looking statements. The factors included here are not exhaustive. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor can we assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Therefore, forward-looking statements should not be relied upon as a prediction of actual future results.

While we believe that the forward-looking statements made in this report are based on reasonable assumptions, the actual outcome of such statements is subject to a number of risks and uncertainties, including the significant percentage of our revenue attributable to a limited number of customers; the failure of our markets to continue growing and expanding in the manner we anticipated; the failure of our customers to grow and expand as we anticipated; the effects of natural or other events beyond our control, including the effects political unrest, war or terrorist activities may have on us or the economy; the economic environment's effect on us or our customers; the growth of, acceptance of and the demand for our products and technologies in various markets and geographical regions, including cable, satellite, consumer electronics, retail, and digital media and interactive technology; our successful integration of the Ecolink and RCS assets and business lines; our inability to add profitable complementary products which are accepted by the marketplace; our inability to attract and retain a quality workforce at adequate levels in all regions of the world, and particularly Asia; our inability to continue to maintain our operating costs at acceptable levels through our cost containment efforts; an unfavorable ruling in any or all of the litigation matters to which we are party; our inability to continue selling our products or licensing our technologies at higher or profitable margins; our inability to obtain orders or maintain our order volume with new and existing customers; our inability to develop new and innovative technologies and products that are accepted by our customers; the sale of our Guangzhou facility not occurring as or within the time frame anticipated by management; our inability to successfully and profitably restructure our manufacturing facilities and activities; possible dilutive effect our stock incentive programs



may have on our earnings per share and stock price; the continued ability to identify and execute on opportunities that maximize stockholder value, including the effects repurchasing the company's shares have on the company's stock value; our inability to continue to obtain adequate quantities of component parts or secure adequate factory production capacity on a timely basis; and other factors listed from time to time in our press releases and filings with the Securities and Exchange Commission.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including interest rate and foreign currency exchange rate fluctuations. We have established policies, procedures and internal processes governing our management of 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. From time to time we borrow amounts on our Credit Line for working capital and other liquidity needs. Under our Amended Credit Agreement, 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. Accordingly, changes in interest rates would impact our results of operations in future periods. A 100 basis point increase in interest rates would have an approximately \$0.6 million annual impact on net income based on our outstanding line of credit balance at June 30, 2017.

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 June 30, 2017, we had wholly-owned subsidiaries in Argentina, Brazil, Cayman Islands, France, Germany, Hong Kong, India, Italy, Japan, Korea, Mexico, 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, operating expenses, 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, Mexican Peso, Brazilian Real, Indian Rupee and Japanese Yen. 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. We are generally a net payor of the Euro, Mexican Peso, Indian Rupee and Japanese Yen and therefore benefit from a stronger U.S. Dollar and are adversely affected by a weaker U.S. Dollar relative to the foreign currency. For the British Pound, Argentinian Peso and Brazilian Real, we are generally a net receiver of the foreign currency and therefore benefit from a weaker U.S. Dollar and are adversely affected by a stronger U.S. Dollar relative to the foreign currency. Even where we are a net receiver, a weaker U.S. Dollar may adversely affect certain expense figures taken alone.

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

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

The sensitivity of earnings and cash flows to variability in exchange rates is assessed by applying an approximate range of potential rate fluctuations to our assets, obligations and projected results of operations denominated in foreign currency with all other variables held constant. The analysis includes all of our foreign currency contracts offset by the underlying exposures. Based on our overall foreign currency rate exposure at June 30, 2017, we believe that movements in foreign currency rates may have a material effect on our financial position and results of operations. We estimate that if the exchange rates for the Chinese Yuan Renminbi, Euro, British Pound, Argentinian Peso, Mexican

Peso, Brazilian Real, Indian Rupee and Japanese Yen relative to the U.S. Dollar fluctuate 10% from June 30, 2017, net income in the third quarter of 2017 would fluctuate by approximately \$10.4 million.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of 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.

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 the fiscal quarter covered by this Quarterly Report on Form 10-Q.

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## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

We are subject to lawsuits arising out of the conduct of our business. The discussion of our litigation matters contained in "Notes to Consolidated Financial Statements - Note 10" is incorporated herein by reference.

## ITEM 1A. RISK FACTORS

The reader should carefully consider, in connection with the other information in this report, the factors discussed in "Part I, Item

1A: Risk Factors" of the Company's 2016 Annual Report on Form 10-K incorporated herein by reference. These factors may cause our actual results to differ materially from those stated in forward-looking statements contained in this document and elsewhere.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended June 30, 2017, we repurchased 54,350 shares of our issued and outstanding common stock for \$3.5 million. We make stock repurchases under ongoing and systematic programs approved by our Board of Directors to manage the dilution created by shares issued under our stock incentive plans or when we deem a repurchase is a good use of our cash and the price to be paid is at or below a threshold approved by our Board from time to time. On June 30, 2017, we had 148,853 shares available for repurchase on the open market under the Board's authorizations. On July 26, 2017, our Board increased these repurchase authorizations by 51,147 shares bringing the total authorizations as of the approval date to 200,000 shares. Shares may also be tendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock.

The following table sets forth, for the three months ended June 30, 2017, our total stock repurchases, average price paid per share and the maximum number of shares that may yet be purchased on the open market under our plans or programs:

Period	Total Number of Shares Purchased <sup>(1)</sup>	Weighted Average Price Paid per Share <sup>(2)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(3)</sup>
April 1, 2017 - April 30, 2017	1,354	\$ 67.89	—	200,000
May 1, 2017 - May 31, 2017	52,392	64.20	51,147	148,853
June 1, 2017 - June 30, 2017	604	67.11	—	148,853
Total	54,350	\$ 64.33	51,147	148,853

Of the repurchases in April, May and June, 1,354, 1,245 and 604 shares, respectively, represent common shares of the company that were owned and tendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted shares.

<sup>(2)</sup> For shares tendered in connection with the vesting of restricted shares, the average price paid per share is an average calculated using the daily high and low of the Company's common stock at the time of vesting.

<sup>(3)</sup> The Company may purchase shares from time to time in open market purchases. The Company may make all or part of the purchases pursuant to accelerated share repurchases or Rule 10b5-1 plans.

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ITEM 6. EXHIBITS

- 10.1 Ninth Amendment to Amended and Restated Credit Agreement dated as of June 20, 2017 between Universal Electronics Inc. and U.S. Bank National Association (filed herewith)
- 31.1 Rule 13a-14(a) Certifications of Paul D. Arling, Chief Executive Officer (principal executive officer) of Universal Electronics Inc.
- 31.2 Rule 13a-14(a) Certifications of Bryan M. Hackworth, Chief Financial Officer (principal financial officer and principal accounting officer) of Universal Electronics Inc.
- 32 Section 1350 Certifications of Paul D. Arling, Chief Executive Officer (principal executive officer) of Universal Electronics Inc., and Bryan M. Hackworth, Chief Financial Officer (principal financial officer and principal accounting officer) of Universal Electronics Inc. pursuant to 18 U.S.C. Section 1350
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: August 8, 2017 UNIVERSAL ELECTRONICS INC.

By: /s/ Bryan M. Hackworth  
Bryan M. Hackworth  
Chief Financial Officer (principal financial officer  
and principal accounting officer)

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101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document



